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Intra-family transfers of farm property in Jefferson County, Iowa

Howard Rissell Dorsett
Iowa State College

NOTE TO USERS

INTRA-FAMILY TRANSFERS OF FARM PROPERTY IN JEFFERSON COUNTY, IOWA

by

Howard Rissell Dorsett

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Signature was redacted for privacy.

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Signature was redacted for privacy.

Head of Major Department

Signature was redacted for privacy.

Dean of Graduate College

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INTRODUCTION

The continuity of ownership of farm property[1] is broken at least once each generation by the natural processes of life and death. Since property rights continue beyond the death of their owner, the present system of land inheritance[2] has developed over the years to perform the act of transferring these rights from one generation to the next.

This investigation is concerned with those transfers of property which take place within families.[3] A property owner may transfer his property to a member of his family inter-vivously through gift or sale, he may plan the distribution of his estate by making a will which is effective upon his death, or he may make plans which determine the distribution

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[1]The term "farm property" as used throughout this study includes farm land, buildings and other permanent improvements, farm equipment, livestock, feed and seed. All assets owned by the farm owners and their spouses were considered in this study inasmuch as the extent of such property may influence the transfer of farm property.

[2]The term "inheritance" as used in this study includes all cases where heirs obtained ownership of farm property upon death of a relative excepting where they purchased at sale in settlement of estate.

[3]For the purposes of this study, an individual landowner's family includes: (1) spouse and children; (2) spouse, ascendant and collateral heirs, in event there are no children; and (3) other relatives from whom the landowner indicated receiving property.

of his estate after death.[1] In event no action is taken prior to the owner's demise, the distribution is governed by the state laws of descent. Many problems arise within this matrix of transferring property. This study was designed to delimit and examine these problems and to appraise possible means of overcoming them. The study was limited to Jefferson County,[2] using county records and personal interviews as sources of data.

The Extent and Importance of Intra-Family Farm Property Transfers

The United States Department of Agriculture has made estimates of the number of farms that changed ownership during the period 1935-55.[3] In 1955, 42.1 farms per 1,000 of all farms in Iowa changed ownership (Table 51 Appendix). Of this number, 14.8 farms were transferred within families. In other words, 35.1 per cent of all farm transfers in 1955 were intra-family in nature. From 1935 to 1939, an average of 25 per cent or one out of every four transfers was intra-family. Whereas, during the period 1951 to 1955, the ratio is one

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[1]Code of Iowa, 1954: 558.68. This section restricts the extent that property can be entailed into future generations to 21 years beyond the life of living persons.

[2]See section on Procedures for an explanation of why this county was selected as the area of study.

[3]Data are available back to 1925, however, for the purposes of this analysis a 21-year period was believed adequate.

out of every three. More precisely, 33.6 per cent of all farm transfers took place within the family.[1] These data indicate that intra-family farm transfers are becoming more prevalent.

Another study[2] gives added emphasis to the importance of within-family transfers by indicating the degree to which Iowa landowners are dependent upon such transfers in obtaining ownership of farm land. Timmons and Barlowe found that 45.6 per cent of the landowners in Iowa had received some form of family assistance in reaching the ownership rung of the agricultural ladder (Table 1). Almost one out of nine received property by gift, will or laws of descent, while approximately one out of six landowners purchased all or part of their land from relatives. The remaining 18.2 per cent obtained their land by a combination of these methods. Other data presented in the same study suggest that more rather than less land is now being transferred from one generation to the next within the family[3].

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[1]These inferences are based on the assumption that the number of inter vivos within-family transfers is at least equal to the number of sales to non-family members in the settlement of estates. This assumption is supported in that the former type of transfer was found to exceed the latter by 20 per cent in this study.

[2]John F. Timmons and Raleigh Barlowe. Farm Ownership in the Midwest. Iowa Agri. Exp. Sta. Res. Bul. 361. June 1949.

[3]Ibid., p. 888.

Table 1. How ownership was obtained by landowners, Jefferson County, Iowa, compared to State as a whole

Method used in obtaining ownership	Jefferson County landowners, 1953		Iowa landowners, 1946[a]	
	Number	Per cent	Number	Per cent
With family assistance	(41)	(43.6)	(511)	(45.6)
Family assistance combination	22	23.4	204	18.2
Purchased from relatives	4	4.25*	133	11.9*
Gift, will, law of descent	11	11.7	124	11.0
Purchased partly from relatives	4	4.25	50	4.5
Without family assistance	(53)	(56.4)	(610)	(54.4)
Purchased from non-relatives	53	56.4	574	51.2
Combinations of no family assistance	-	-	12	1.1
Other	-	-	24	2.1
Total all methods	94	100.0	1121	100.0

[a]Adapted from John F. Timmons and Raleigh Barlowe. Farm Ownership in the Midwest. Iowa Agri. Exp. Sta. Res. Bul. 361. 1949. Appendix Tables 10 and 11. p. 939.

*Significant at the five per cent level.

Table 1 also indicates how the landowners interviewed in this study obtained ownership of their farm land. In comparing the results of the two studies, the proportion of landowners dependent upon family assistance in achieving ownership is quite similar. However, the percentage which purchased all of their land from relatives is significantly different at the five per cent level. Only 4.25 per cent of the respondents received this type of assistance,[1] whereas the 1946 study shows that 11.9 per cent purchased all of their land from relatives. Perhaps an increase in sample size would have made this relationship more comparable.

Intra-family farm transfers appear to be of increasing importance to the younger generation in starting to build up ownership of farm property.[2] An increasingly larger acreage is required for efficient operation of the farm business.[3]

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[1]The purchase of land from relatives is considered assistance in that such a transaction between family members may involve more lenient terms than a purchase of land from non-relatives.

[2]John F. Timmons and John C. O'Byrne. Transferring Farm Property Within Families in Iowa. Iowa Agri. Exp. Sta. Res. Bul. 394. February 1953. p. 149.

[3]According to Haver, who conducted a study on cash-grain farms in the northern and north central cash-grain farming areas of Iowa, ". . .more efficient resource use could be achieved if cash-grain farms, were, on the average, at least twice as large as they are now." Cecil B. Haver. The Economics of Farm Size in Cash-grain Farming in Iowa. Unpublished Ph. D. Thesis. Ames, Iowa. Iowa State College Library. 1954. p. 134-135.

Census data indicate a 16.7 per cent increase in the average size of an Iowa farm since the turn of the century.[1] Comparable data for Jefferson County show a 32.2 per cent increase in number of acres per farm during the past 54 years. This larger acreage coupled with higher land values has increased the amount of capital required for land and buildings. The value of land and buildings per farm in Iowa has increased by 30.9 per cent since 1950. The percentage increase in Jefferson County for the same period was 46.7 per cent. Investment for the non-real-estate segment of the farm business has also increased with the greater demand for machinery and the additional emphasis on livestock production. The value of livestock, machinery and motor vehicles owned by all farmers in 1955 has increased by 250 per cent since 1940.[2]

The increasing size of farms means fewer farms[3] and consequently fewer opportunities for farm people to operate farms of their own. As acreages, land values and non-real-estate investment increase, making farm owner-operatorship more

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[1]Data in this section unless otherwise indicated were adapted from U. S. Bureau of the Census. U. S. Census of Agriculture, 1954. Vol. 1. Counties and State Economic Areas, part 9, and corresponding volumes of previous years.

[2]F. L. Garlock, L. A. Jones, R. W. Bierman, M. M. Taylor, and W. H. Scofield. The Balance Sheet of Agriculture, 1955. Agri. Research Service. U. S. Dept. of Agriculture. August 1955. p. 2.

[3]The number of farms in Iowa and Jefferson County has decreased since 1900 by 16.4 and 27.4 per cent respectively.

difficult, intra-family farm property transfers take on added significance by providing certain members of the younger generation the opportunity of gaining access to farm property.

Problems of Intra-Family Farm Property Transfers

Many elements of conflict, doubt and confusion confront the farm family as they seek a satisfactory solution to transferring farm property within the family. Intra-family transfer problems are of two types, problems which are associated with transfer planning and problems which arise when the transfer process fails to achieve the farm families' objectives.

Problems associated with farm transfer planning

Farm owners and their prospective heirs are faced sooner or later with the problem of planning how their farm property shall be transferred to the next generation. According to Professor Brown,

> The owner of a given piece of land or chattel has not only the interest of possession, and of enjoyment and user, but also that of transfer to another, and even of directing how it shall be disposed of upon his death.[1]

Thus, a property owner possesses the right and responsibility to decide what is to happen to the property upon his or her death. Since within-family farm transfers are such an impor-

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[1]Ray Andrews Brown. A Treatise on the Law of Personal Property. Chicago, Callaghan and Co. 1936. p. 7.

tant link in the chain of farm ownership,[1] one would expect a majority of farm owners to make quite definite plans for transferring their farm property. However, such is not the case. According to a recent study approximately 69 per cent of the land owners in Iowa have not made wills.[2] Perhaps this failure to make a will[3] is due in part to the fact that some people fear the writing of a final testament or think that the discussion of a transfer plan will hasten death. Other farm people may mistakenly believe that will or plan making is expensive. However, unless this condition is corrected, many farm owners will die intestate, i.e., without making a will which provides for the distribution of property, both real and personal, upon death.

Some farm families may not make transfer plans because they think that the property distribution provided by law is adequate for their situation. In this event there is no need to make a plan. However, due consideration should be given to the alternative methods of transferring property before making the final decision. In this connection, Dr. Timmons states

> . . .that farm owners are confused and in doubt as to the best practices of transferring their land to their children and other prospective beneficiaries.

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[1]Can You Own Your Farm? North Central Regional Publication No. 14. Kentucky Agr. Exp. Sta. Cir. 65. November 1949. p. 16.

[2]Timmons and Barlowe, op. cit., p. 920.

[3]The failure to make a will does not preclude a transfer plan.

> This doubt and confusion exists, in part at least, because farm owners do not possess adequate knowledge of the alternatives and conditions regarding the transfer of their land.[1]

Further evidence that farm owners do not possess adequate knowledge concerning methods of transfer is provided by a study conducted in Virginia. Walrath and Gibson reported that ". . .63 per cent of those who did not have a will did not have a clear understanding as to how the laws of descent. . . would operate in their specific cases."[2] This lack of knowledge as to how the various methods of transfer will operate, may be a limiting factor in the transfer planning procedure, causing many farmers to do nothing or to postpone any action until it is too late.

Another problem associated with the transfer planning procedure stems from the objectives of the transfer process. A study of the literature revealed that plans for the transfer of farm property usually have some of the following objectives: to provide adequate retirement income for the parents;[3]

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[1]John F. Timmons. Social and Economic Aspects of the Devolution of Agricultural Land Through Descent, Will and Gift. Unpublished Ph. D. Thesis. Madison, Wisconsin. University of Wisconsin Library. 1945. p. 180.

[2]Arthur J. Walrath and W. L. Gibson, Jr. Farm Inheritance and Settlement of Estates. Virginia Agri. Exp. Sta. Bul. 413. January 1948. p. 30.

[3]Kenneth H. Parsons and Eliot O. Waples. Keeping the Farm in the Family. Wisconsin Agri. Exp. Sta. Res. Bul. 157. September 1945. p. 22.

to maintain a farming unit of adequate size;[1] to treat all children fairly;[2] to maintain continuity of ownership within the family;[3] to minimize inter-generation farm transfer costs;[4] to help children get an early start;[5] to maintain farm business as a going concern;[6] and to prevent the heir who takes over the farm from being burdened with an excessive debt.[7] In determining which of these objectives to achieve, farm parents are presented with the problem of choice[8] because certain objectives may be in conflict. Also, the objectives of one

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[1] N. G. P. Krausz. Inheritance and Gift Taxes. Illinois Agri. Ext. Cir. 728. January 1956. p. 2.

[2] John F. Timmons. Transferring Farms in Families. Land Policy Review. Vol. 9. No. 4. Winter 1946. p. 5.

[3] Russell L. Berry, Sidney Henderson and Elton B. Hill. How to Keep Your Farm in the Family. Michigan Agri. Exp. Sta. Spec. Bul. 357. April 1949. p. 9.

[4] Timmons and O'Byrne, op. cit., p. 156.

[5] Eliot O. Waples. Farm Ownership Processes in a Low Tenancy Area. Unpublished Ph. D. Thesis. Madison, Wisconsin. University of Wisconsin Library. 1946. p. 131.

[6] Marshall Harris and Elton B. Hill. Family Farm-Transfer Arrangements. North Central Regional Publication No. 18. April 1951. p. 6.

[7] C. L. Stewart. Farm Transfers Within Families. Illinois Agri. Ext. Cir. 744. May 1955. p. 3. The term "excessive debt" for the purpose of this study is defined as debt over and above the productive value of the farm.

[8] Another problem of choice often results when the objectives of the public conflict with those of individual farm people; however, no attempt was made to examine this problem.

member of a particular farm family may conflict with those of another family member. In exemplifying these conflicts, Professor Timmons states,

> The parent landowner may not only want his children to become owner operators of the home farm, but he may also want to treat all of his children alike as well as to provide for his wife and himself during their remaining years.[1]

It is not reasonable to expect that all these conflicts can be reconciled in all cases, although frequently no insurmountable obstacles prevent all interests being served in a satisfactory manner. However, ". . .many owners look askance at the problems involved, conclude that the various interests. . . are irreconcilable, and end up taking no action whatsoever."[2]

In interviewing 100 farm families in New York State, Smith found a reluctance to discuss plans for the future disposition of farm property until after the death of a property owner. Such an attitude ". . .represents an important barrier to intelligent planning for the transfer of farm ownership."[3]

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[1]Timmons, Social and Economic Aspects of the Devolution of Agricultural Land through Descent, Will and Gift. op. cit., p. 146.

[2]Robert S. Smith. Transferring the Farm to the Next Generation. New York (Ithaca) Agri. Exp. Sta. Bul. 901. October 1953. p. 8.

[3]Ibid., p. 77.

This attitude may promote uncertainty of expectations on the part of potential heirs and without discussion of such matters among all members of the family, the ultimate compromise of conflicting transfer objectives may be improbable.

Problems resulting from intra-family farm property transfers

The central core of this study seeks to determine how farm parents and their children can work out arrangements for transferring the home farm and achieve the optimum in the transfer objectives held by the farm family. It seems reasonable to assume that some families are not attaining this ideal situation when the transfer takes place. The failure of farm families in Iowa to achieve these transfer objectives may stem in the main from attempting to transfer the average size farm of 176.5 acres[1] to 2.6 children[2] without a definite plan. This problem is further complicated when the surviving spouse is dependent on the farm for retirement income.[3]

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[1]U. S. Census of Agriculture. op. cit., Comparable datum for Jefferson County is 160.7 acres.

[2]According to 1950 census data, the average number of live children born to married rural farm women (age 15-59) in Iowa was 2.6. U. S. Bureau of the Census. U. S. Census of Population: 1950. Vol. 4, Special Reports, Part 5, Chapter C, Fertility. 1955. p. 123. Adapted from Table 32.

[3]Timmons and Barlowe, op. cit., p. 926.

Such a situation frequently results in the disintegration of the family farm as a going concern.[1] Some of the farm property may need to be sold to pay the cost of settling the estate or the property may be divided among the several children. The son who has operated the farm since the owner's retirement may have to share the value of improvements he has made with his brothers or sisters.[2] In event he purchases the farm from the other children, he may be burdened with excessive debt[3] and forced to transfer the farm out of the family. These and other problems resulting from intra-family farm property transfers will be analyzed in greater detail in Chapter IV.

Objectives of Study

This study probes into the nature and extent of the problems that landowners may experience in transferring property to the next generation. The chief aim of this study is to appraise methods of overcoming the obstacles underlying these problems. Limited resources did not permit the testing of all hypotheses and restricted the development of certain problems to that of the conceptual analysis.

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[1]Timmons and O'Byrne, op. cit., p. 156.

[2]John F. Timmons. Who Gets the Family Farm? Iowa Farm Science. Vol. 6, No. 5. November 1951. p. 69.

[3]Timmons and Barlowe, op. cit., p. 851.

Within this broad framework, the study objectives include investigation of the following areas:

1. To observe and study how Jefferson County landowners obtained ownership of farm property.
2. To determine the objectives sought by landowners in the intra-family farm transfer process.
3. To ascertain what plans landowners have made or are making in order to attain these transfer objectives.
4. To identify problems landowners have encountered or are encountering in the within-family farm transfer process.
5. To isolate the obstacles which underlie these transfer problems.
6. To discover how these transfer obstacles have been and are being overcome.

Procedures Used in This Study

To serve as guides for conducting this inquiry,[1] hypotheses were developed for each of the transfer objectives that landowners might want to achieve. Specifically, hypotheses were formulated regarding the problems confronting the landowner in attaining his transfer objectives, the obstacles or barriers

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[1] Timmons stresses the need and increasing attention being given to the use of hypotheses as guides or directors of inquiry. John F. Timmons. Philosophy and Methods of Inquiry Into Land Problems. Unpublished manuscript. Ames, Iowa. Iowa State College Department of Economics and Sociology. 1953. p. 2.

underlying these problems, and possible remedial courses of action for solving these problems. These hypotheses are developed in the next chapter.

Selection of Jefferson County as area of study

Jefferson County, located in southeastern Iowa in the third tier of counties west of the Mississippi River and in the second tier north of the Missouri state line, was selected as the area for investigation. Choice of this county was made after preliminary investigation revealed: (1) it had a variety of soil and topographic features, with a similar range in land values; (2) the county as a whole was rather similar in tenure pattern to that of other counties in the Southern Pasture Region; (3) the transfer practices appeared to be similar in characteristics to other parts of Southern Iowa; and (4) a private-tract index was available.

The approximate land area in Jefferson County is 279,040 acres.[1] Of this area, 257, 298 acres or 92.2 per cent is in farm land. Located in the Southern Iowa loess soil area, this county's farm land consists of soils predominantly loessial in character. According to the most recent soil survey,

> Over 83 per cent, by far the largest portion of the total area, is covered by loess soil. . . . The Grundy silt loam is the largest individual type and the

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[1]U. S. Bureau of the Census. 1954, Census of Agriculture. op. cit., p. 48.

> most extensively developed. . . . It covers almost half of the total area, 45.5 per cent. The Clinton silt loam. . .covers 32.8 per cent of the county.[1]

Of all land in farms, 63.8 per cent is in cropland.[2] Compared to the entire state (76.3 per cent), this percentage is somewhat low. The average value of farm land and buildings is $148.27 per acre for Jefferson County as compared to $198.91 for the state.[3] Thus, according to census data for 1954, Jefferson County has more untillable land and lower land values than the state average. This condition typifies the entire Southern Pasture Region.

It was felt that in areas of low tenancy or high owner-operatorship, the objectives of the transfer process would be less influenced by investment or monetary considerations, and would be conditioned by objectives which tend to be more concerned[4] with what happens to the farm in the inter-generation transfer process. Jefferson County satisfies these requirements. Further, according to Table 2, Jefferson County is

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[1]W. H. Stevenson and P. E. Brown. Soil Survey of Iowa, Jefferson County. Iowa Agri. Exp. Sta. Soil Survey Report No. 50. June 1927. p. 10-11.

[2]U. S. Bureau of the Census. op. cit.

[3]Ibid.

[4]Keeping the farm in the family is an objective which is more concerned with what happens to the farm in this case.

Table 2. Tenure of farm operators in Southern Pasture Region, State of Iowa, 1954[a]

County	Full Owners	Part Owners	Managers	Tenants
	Per cent	Per cent	Per cent	Per cent
Adair	48.9	18.0	0.1	33.0
Adams	48.9	17.9	0.1	33.1
Appanoose	61.6	21.6	0.1	16.7
Clarke	53.9	19.6	0.2	26.3
Davis	59.1	21.0	0.3	19.6
Decatur	56.1	18.8	0.4	24.7
Guthrie	45.8	17.8	0.3	36.2
Jefferson	54.6	19.8	0.2	25.4
Lee	65.2	18.5	0.1	16.2
Lucas	61.9	20.1	0.1	17.9
Madison	51.6	22.2	0.4	25.8
Marion	50.4	17.7	0.3	31.6
Monroe	64.3	19.6	0.8	15.3
Ringgold	53.5	23.1	0.2	23.2
Taylor	53.6	18.9	0.1	27.4
Union	50.1	21.1	0.1	28.7
Van Buren	61.3	18.9	0.1	19.7
Wapello	59.0	18.1	0.3	22.6
Warren	55.1	18.6	0.2	26.1
Wayne	54.8	22.3	0.1	22.8
Average	55.5	19.7	0.2	24.6
Jefferson	54.6	19.8	0.2	25.4

[a]Adapted from U. S. Bureau of the Census. Census of Agriculture 1954. Vol. 1. Counties and State Economic Areas, part 9.

similar in tenure pattern to the other counties in the Southern Pasture Region. The proportions of the several tenure groups for the 20 county area and Jefferson County, respectively, are as follows: full owners, 55.5 and 54.6 per cent; part owners, 19.7 and 19.8 per cent; managers, 0.2 and 0.2 per cent; and tenants, 24.6 and 25.4 per cent.

A third reason for selecting Jefferson County was the opinion that empirical data in respect to transfer objectives, practices and consequences might be comparable to other localities in Southern Iowa. However, there is no expressed intention to infer that definite generalizations for areas other than Jefferson County can be made. Although, it would appear that the results of this study would have some bearing in those areas and situations where landowners have somewhat the same family composition, kind and value of property and transfer objectives.

The final factor determining the area of study was the availability of a private-tract index. Such an index greatly facilitates the creation of sequential patterns of ownership and transfer of farms within families and is far superior to the use of the Grantor-Grantee Index,[1] especially if one is tracing ownership by land description.[2] Previous contacts with

[1]The Grantor-Grantee Index refers to the transfer instrument by the last names of the grantor and grantee and not by legal description of the land being transferred. Such an index is available in most counties.

[2]In this study, ownership was traced by using the legal description of the land being transferred.

a local abstract office indicated a more than adequate degree of cooperation in making such records and facilities available. The cooperation of the county officials in Jefferson County was assured during the planning stage.

Sources of data and schedule used

Sources utilized to obtain the data necessary to test the hypotheses guiding this study, were the courthouse records and field interviews with a representative sample of landowners in Jefferson County.[1]

The courthouse records used consisted of the probate record, the will record, the tax and assessment rolls, and the deed record. The first two are located in the county clerk's office, the deed record is maintained in the county recorder's office and the tax and assessment rolls are in the county treasurer and assessor's office.

The probate records consist of a file of all original instruments pertaining to the actions involved in the settlement of estates of deceased property owners. The following information was obtained from the probate records: the names of the decedent and the administrator; the dates of death, petition for administration, and final report; the description of real estate and kind of interest owned by deceased; the

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[1]See page 21 for detailed explanation of sampling procedure.

value of property; the costs of estate settlement; the disposal of property; and the names, ages, and relationship of the heirs to the deceased.

The will record was used to determine the distribution of property and the expressed transfer objectives of the testate relatives of landowners.

The tax and assessment rolls were used in the following manner: the sample of landowners was drawn from the assessor's rolls, then the tax rolls were checked to secure the legal description of all real estate owned and to determine if the landowner possessed holdings in another township. The private-tract index was then consulted to obtain the name of grantor, the type of instrument used to transfer property to grantee (present landowner), the date of instrument and where recorded, i.e., book and page number of deed record. Using this information, the deed record was consulted to determine the sales price,[1] kinship between the two parties, and other relevant information.

The primary data were collected by field interviews with landowners. Two schedules[2] were used in this process. The first schedule[3] was designed to obtain information in regard

[1]Oftentimes the consideration was not given in the deed. However, a close approximation of the sales price was obtained by multiplying each revenue stamp (.55¢) by $500.00.

[2]A copy of schedules used for personal interviews and the forms employed to obtain information from county records are on file at the Department of Economics and Sociology, Iowa State College, Ames, Iowa.

[3]This schedule is hereafter referred to as the *ex ante* schedule in that it was used to obtain information about the present generation (living).

to transfer objectives, plans for meeting these objectives, nature and extent of property, and family make-up of the landowner. The second schedule[1] was devised to secure the same information about the deceased relatives[2] of the respondent. All of the respondents were interviewed with the ex ante schedule; however, two necessary conditions had to be fulfilled before the ex post schedule was used. First, the respondent had to receive some material assistance from their deceased parents or spouse; and second, such deceased relatives' probate records had to be available at the Jefferson County courthouse.

After developing the two schedules oriented to providing necessary data to test the hypotheses, the questionaires were pre-tested and found to be extremely long in that they required more time than the respondents were willing to devote to the interview. This pre-test experience led to a revision of the questionnaires consistent with providing essential data for testing the hypotheses. During the revision, the decision was made to obtain only information regarding transfers between the deceased and the respondent in those cases where the de-

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[1]This schedule is hereafter referred to as the ex post schedule in that it was used to obtain information about the past generation (deceased). The ex post schedule was used in 47 cases.

[2]The term "relatives" as used in this context, means parents or spouse of the respondent.

ceased died before 1940.[1] In those cases where the deceased had died since 1940,[2] information about all within-family transfers was obtained, i. e., transfers to all children of the deceased and not just to the respondent. This choice was made after detecting that the interviewee had repeated difficulty remembering certain necessary details about events in the ex post sense that had transpired before that date. Thus, had this adjustment not been made, a serious memory bias might have developed.

Selection of landowners for interview

The selection of interviewees was made during 1953. A systematic sample of every 15th name listed in each of the twelve Township Assessor's books (1953) was drawn,[3] counting only the names of farm real estate owners. In other words, the names of owners possessing only town and personal property were omitted.

The sampling rate 1/15 was determined in large measure by the desire to obtain a list of approximately 90 landowners meeting the following specifications: they must live in

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[1]Of the 47 ex post cases, 30 had died before 1940.

[2]Of the 47 ex post cases, 17 had died after 1940.

[3]This sampling procedure was adopted upon the advice and counsel of Raymond J. Jessen, Professor of Statistics, Iowa State College.

Jefferson County or in adjoining counties so as to be available for personal interview;[1] they must own a minimum of 40 acres;[2] and they must be cooperative to the extent of giving a considerable amount of their time as well as confidential information in the interviewing process. Also, the number of names had to be large enough to make allowance for unsettled estates[3] and multiple holdings.

Having determined the percentage of the population which satisfied these requirements by a pilot study, it was estimated that 153 names would be adequate to give the desired minimum of 90 cases after discarding those that did not meet the standards mentioned above. After approximating the number of names in the 12 assessor's books, and dividing this number by 153, the sampling rate of 1/15 resulted.

Of the landowners drawn, ten lived outside the area of contact (Jefferson and adjoining counties). An additional 14 possessed holdings of less than 40 acres and 17 cases represented unsettled estates. After discarding these 41 cases, 112 randomly drawn names remained in the sample.

[1]Area of contact was restricted to Davis, Henry, Jefferson, Keokuk, Van Buren, Wapello, and Washington counties. This restriction was made to enable the investigator to commute to and from the field during slack periods at place of employment in Fairfield, Iowa, the county seat of Jefferson County.

[2]This restriction was made so as to reduce the urban influence of small acreages and part-time farms.

[3]Unsettled estates were discarded because the ownership interests of the beneficiaries of decedent often remain unclarified until the estate is settled.

In a true random sample, every unit of the population should have the same chance of being drawn, i. e., there should be no bias.[1] In this case, the names of owners who owned all their land in one township appeared only once on the assessor's rolls; however, the names of owners who owned land in several townships occurred as many times as the number of townships in which they owned land. Thus, the probabilities of multiple landowners entering the sample were adjusted as follows: for those owning land in two townships, one-half of the names were discarded; for those owning land in three townships, two-thirds of the names were excluded. After drawing the sample, it was found that 14 of the landowners drawn owned land in two townships. Therefore, seven additional names were eliminated by a chance selection because of multiple land holdings.

Although the sample as drawn contained 105 observation units, enumeration loss reduced the sample size to 94 units. Death, illness and lack of cooperation accounted for a loss of 11 landowners. The distribution of landowners interviewed by township is shown in Table 3.

Procedures for analysis of data

The hypotheses formulated in the next chapter guided the analytical procedure. They served as the basis for devising

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[1]George W. Snedecor. Statistical Methods. Ames, Iowa. Iowa State College Press. 1946. p. 2.

Table 3. Landowners interviewed according to township, number and percentage

Township	Landowners interviewed number	Percentage of sample in each township per cent
Polk	4	4.3
Black Hawk	7	7.4
Penn	9	9.6
Walnut	9	9.6
Locust Grove	6	6.4
Center	8	8.5
Buchanan	6	6.4
Lockridge	10	10.6
Des Moines	10	10.6
Liberty	8	8.5
Cedar	9	9.6
Round Prairie	8	8.5
Total	94	100.0

the schedules and indicated the appropriate statistical techniques which should be employed in testing the relationships found among the data obtained through personal interview and county records.

The specific hypotheses constructed were concerned with discrete populations and attributes. This fact implicitly designated the use of means and frequency distributions as the appropriate statistical methods. The "t" test was used to examine the differences in the means of measurement data

and in those situations involving enumeration data,[1] the chi-square test of significance was used. The level of probability, which measures the possibilities of occurrences of chance events, used in making these tests was the five per cent level, unless indicated otherwise.

The analysis and interpretation of data sought to ascertain the degree to which certain conceptual problems existed in the transfer process, if the hypothetical causes of these transfer problems were existent, and the extent to which the remedial hypotheses could be validated. According to Timmons, there are two types of inferences which may be employed in testing remedial hypotheses:

> First, resource aspects of problematic situations may be isolated and tested as a possible remedy for the problem based upon its contribution of success in the situation despite the existence of obstacle elements. Second, remedial hypotheses may be tried out on a limited basis and observed in practice.[2]

The former type of inferences is used in this study, in that the existential success elements of the transfer experiences of the respondents and their deceased relatives are isolated, tested and evaluated as alternative courses of action.

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[1]According to Lacey, such data involve the simple counting or enumeration of cases in different categories. Oliver L. Lacey. Statistical Methods in Experimentation. New York. The Macmillan Co., 1953. p. 132.

[2]Timmons, Philosophy and Methods of Inquiry Into Land Problems, op. cit., p. 31.

HYPOTHESES FOR DIRECTING THIS STUDY

Nature and Function of Hypotheses in Directing Inquiry

The use of hypotheses in directing social inquiry is a relatively recent development. According to Salter,[1] the 1928 handbook on Research Method and Procedure in Agricultural Economics made little reference to this function of hypotheses. There was no "discussion of what a hypothesis is, how it works, or what is done with it."[2] However, one has only to appraise the nature of scientific inquiry and the purpose of hypotheses becomes apparent.

Scientific inquiry should be a problem solving activity. This view receives support from many scholars. According to John Dewey, "inquiry is the directed or controlled transformation of an indeterminate situation into a determinately unified one."[3] Later in his book, Dewey defines his position more clearly by saying, ". . .the ultimate end and test of all inquiry is the transformation of a problematic situation into a unified one."[4]

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[1]Leonard A. Salter, Jr. A Critical Review of Research in Land Economics. Minneapolis, Minnesota. The University of Minnesota Press. 1948. p. 42-43.

[2]Ibid., p. 43.

[3]John Dewey. Logic, The Theory of Inquiry. New York. Henry Holt and Co., 1938. p. 117.

[4]Ibid., p. 491.

Salter takes a similar position in respect to the nature of scientific inquiry. "Scientific inquiry must ultimately be related to the solution of experienced problems."[1] For additional insight, Salter adds, "where there is doubt or conflict in respect to that experience, there is a starting point for a line of scientific inquiry."[2] Some years previous, Salter had stated, that unless the research worker has a problem in mind and a hypothesis to test, there is no scientific inquiry.[3] Thus, scientific inquiry is dependent upon both a problem and a hypothesis.

"The first fundamental step in organizing a problematic situation into form for inquiry is the formulation of hypotheses."[4] The fact that hypotheses are a necessary condition to the sorting of facts as relevant evidence, is pointed out by Dewey. "A generalization in the form of a hypothesis is a prerequisite condition of selection and ordering of material as facts."[5] Commenting further on the function of a hypothesis in inquiry, Dewey adds,

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[1]Leonard A. Salter, Jr. The Content of Land Economics and Research Methods Adapted to Its Needs. Jour. Farm Econ. Vol. 24, No. 1. 1942. p. 226.

[2]Salter, Critical Review of Research, op. cit., p. 56.

[3]Leonard A. Salter, Jr. Cross-Sectional and Case-Grouping Procedures in Research Analysis. Jour. Farm Econ. Vol. 24, No. 4. 1942. p. 799.

[4]Timmons, Philosophy and Methods of Inquiry Into Land Problems, op. cit., p. 19.

[5]Dewey, Logic, op. cit., p. 498.

> . . .no generalization can emerge as a warranted conclusion unless a generalization in the form of a hypothesis has previously exercised control of the operations of discriminative selection and (synthetic) ordering of material to form the facts of and for a problem.[1]

Dewey had long been aware of this function of hypotheses. In the process of defining an idea, back in 1910, he said,

> . . .an idea is a meaning that is tentatively entertained, formed and used with reference to its fitness to decide a perplexing situation . . .a meaning used as a tool of judgment. . . . in cases of great dignity we call (the above) a hypothesis. . . .it has an office to perform . . .that of directing inquiry and examination.[2]

Another writer employs the term "generalization" in referring to the function of hypotheses. "Economics as a positive science is a body of tentatively accepted generalizations about economic phenomena that can be used to predict the consequences of changes in circumstances."[3] Friedman comes to this conclusion after saying, "the ultimate goal of a positive science is the development of a 'theory' or 'hypothesis' that yields valid and meaningful predictions about phenomena not yet observed."[4] In commenting on the function of theory (or hypothesis), Friedman adds, "its function is to serve as a filing system for organizing empirical material and facilitating

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[1]Ibid.,

[2]John Dewey. How We Think. New York. D.C.Heath and Co. 1910. p. 108.

[3]Milton Friedman. Essays in Positive Economics. Chicago. University of Chicago Press. 1953. p. 39.

[4]Ibid., p. 7.

our understanding of it. . . ."[1] Thus, a hypothesis controls the selection and ordering of data by serving as an analytical filing system, and an important hypothesis,

> . . .explains much by little, that is, if it abstracts the common and crucial elements from the mass of complex and detailed circumstances surrounding the phenomena to be explained and permits valid prediction on the basis of them alone.[2]

Some indication as to the nature of hypotheses is expressed by Parsons, who asserts that ". . .hypotheses which actually guide effective research are not just ad hoc suggestions shaped up in a way that permits testing."[3] And, "only by formulating a family of hypotheses as alternative explanations and then eliminating those which are less effective"[4] can scientific theory be developed in a tested manner. This end should be the goal of scientific inquiry.

The attainment of this objective is dependent in part upon the manner in which the conceptual framework is developed. "Unless problems, hypotheses, and solutions are formulated in some orderly fashion, the research worker is likely to become

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[1]Ibid.

[2]Ibid., p. 14.

[3]Kenneth H. Parsons. Research in the Succession of Farms: A Comment on Methodology. Land Economics. Vol. 24, No. 3. 1948. p. 299. For a similar view see Dewey, Logic, p. 3.

[4]Ibid.

lost in the throes of collecting figures."[1] The formulation of problems and hypotheses is merely the beginning. They must be modified and revised as the inquiry progresses. According to Salter, "if a first prerequisite of research is the formulation of the problem and possible modes of solution, the second is that these be continually modified as the facts of the case are uncovered."[2] The manner in which this phase (a continuous one) is conducted is of utmost importance, for the ultimate outcome of the inquiry may be dependent upon it. Dewey states that care must be taken in the selection, the retention and the carrying forward of these "ideas and factual materials in order that they may serve their proper functions in control of inquiry."[3]

In summary, a hypothesis is a tentative supposition or conjecture temporarily adopted to make less obscure certain facts and to direct the investigation in terms of a definable framework of inquiry.

Kinds of Hypotheses

In respect to the problematic situation, the hypothesis is a postulation or proposition indicating that "if such and

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[1]Earl O. Heady. Elementary Models in Farm Production Economics Research. Jour. Farm Econ. Vol. 30, No. 2. 1948. p. 206.

[2]Salter, Content of Land Economics and Research Methods, op. cit., p. 239.

[3]Dewey, Logic, op. cit., p. 118.

such a course is adopted under the existing circumstances, such and such will be the probable result."[1] According to Dewey, these propositions are of two main categories, namely 1) existential and 2) universal. The former refers to actual conditions as determined by experimental observation and the latter "are non-existential in content direct reference but which are applicable to existence through the operations they represent as possibilities."[2] They are non-existential in that ". . .such propositions do not intend or purport to have reference to existence but to be relevant to inquiry into existence. . . ."[3]

Within this general context, Dr. Timmons distinguishes three kinds of hypotheses as 1) problem delimiting, 2) diagnostic, and 3) remedial.[4] In regard to problem delimiting hypotheses, they "delimit the specific problems in terms of the gap between the end-in-view and present situation in terms of consequences either expected or experienced."[5] The purpose

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[1]Ibid., p. 162. For other forms of stating hypotheses, see Timmons, Philosophy and Methods of Inquiry Into Land Problems, op. cit., p. 24.

[2]Ibid., See Chapter XV for detailed treatment of this classification of hypotheses.

[3]Ibid., p. 303.

[4]Timmons, Philosophy and Methods of Inquiry Into Land Problems, op. cit., p. 21.

[5]Ibid., p. 21.

of the delimiting process is indicated by John Dewey in these words, ". . .delimit the problem in such a way that. . .material may be provided from experience with which to test the ideas that represent possible modes of solution."[1]

When a specific problem has been set forth or delimited, the diagnostic hypotheses "seek to explain why the problem exists"[2] by advancing "possible reasons and explanations for the development and persistence of the problem."[3] The purpose of the diagnostic supposition is to prepare the way or "to lay the foundations for formulation of remedial hypotheses."[4]

After conceptualizing in respect to the extent and the reasons why the present situation deviates from the end-in-view (norm, ideal or practical optimum), the remedial hypotheses "propose specific possibilities of remedying the problem as a necessary basis for action."[5] In other words, they are "means for ameliorating the problem. . .by bringing about a more complete achievement of a particular end-in-view in the means-end continuum."[6] The utility of remedial hypotheses is

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[1]Dewey, Logic, op. cit., p. 118.

[2]Timmons, Philosophy and Methods of Inquiry Into Land Problems, op. cit., p. 21.

[3]Ibid., p. 22.

[4]Ibid., p. 23.

[5]Ibid.

[6]Ibid., p. 21.

stressed by Heady, in the following terms: ". . .without a theoretical solution the probability is small that one will be found in reality."[1] Unless the researcher is forewarned, i. e., has formulated remedial hypotheses and knows what to look for, it is extremely doubtful if a solution will be found.

Development of Hypotheses Used in This Study

The within family farm property transfer problems introduced in the first chapter served as the basis for the development of the hypotheses used in this study. These problems were defined in terms of departure from ideal or optimum conditions, therefore the hypotheses have reference to particular ends-in-view. These ends-in-view are the objectives that landowners desire to achieve in the transfer process. Eight such objectives are listed below. Under each objective, with the designations a, b, and c, are listed the delimiting, diagnostic, and remedial hypotheses used in this study.

1. Adequate retirement income for landowner and spouse.
    a. The older generation may have an inadequate income upon retirement from farm operation, causing them to spend last days at county institutions or to seek part-time work and employment at odd jobs.

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[1]Earl O. Heady. Implications of Particular Economics in Agricultural Economics Methodology. Jour. Farm Econ. Vol. 31, No. 4. 1949. p. 839.

This may result in waste of managerial ability, loss of pride and sense of achievement. A surviving spouse often has insufficient income from estate of deceased spouse, must move in with children or depend on charity. Spouse may receive public assistance payments, even when children are able to provide adequate support but refuse to do so.

b. Farm parents feel compelled or obligated to leave as much as possible to their children. They depend on their investment in the farm business, which frequently is not adequate to provide security upon retirement. The spouses' income from estate is insufficient because: (1) the farm is not transferred as a going concern; (2) the farm is not maintained as an economic unit; (3) the farm is allowed to run down during life estate of spouse; (4) the share given by laws of descent is inadequate; (5) the spouse is not adequately provided for in will; and (6) the estate is small to begin with, or transfer costs were excessive.

c. Educational programs will help the farm family understand that retirement income for parents has priority over other objectives. An annuity plan may be used to provide income calculated largely in kind (hedge against rising price level) as part payment for farm sold to operating heir. Parents can receive some

income from interest on a mortgage given by operating heir, who agrees not to refinance it. Information can be provided that will assist farm families in making transfer plans that will maintain farm as a going concern and economic unit, and minimize transfer costs consistent with other objectives. In some cases, the owner may provide greater security for spouse by devising more property. The laws of descent may be changed, giving a minimum amount to spouse before any distribution to other heirs.

2. Equitable treatment of children.[1]

   a. Farm parents do not treat their children equitably. Oftentimes, in the distribution of family assets, consideration is not given to those children who remain on the farm and work without compensation. Certain children in the family may care for the aging parents, receive prior gifts or an education, or make improvements on the family farm in anticipation of owning it some day; then the estate is divided equally among all children, share and share alike.

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[1]For the purposes of this study, the term "equitable treatment" is defined as equal assistance to all children during the lifetime and upon death of the landowner.

b. Landowners may fail to make transfer arrangement and the laws of descent, designed to meet the average situation, treat the children on an equal basis, which may not be equitable unless their lifetime assistance from parents and to parents has been equal. The farm parents desirous of avoiding any hard feelings may divide property evenly between the children without consideration of prior assistance.

c. The laws of inheritance may be revised so that courts, in the settlement of intestate estates, can give recognition to the proper management of the farm, to the care of the parents and past assistance given to children. The payment for improvements and parental care made by children may be made out of the estate. The educational program may be initiated to aid the farm family in determining an equitable distribution, and to indicate that children should share in the estate in accordance to their contributions to the family and farm.

3. Maintaining continuity of ownership within the family.

a. Some farms are transferred completely out of the families that developed them, contrary to the wishes of the owner. Oftentimes this transfer takes place upon retirement of the farm owner; or

in the process of settling the estate, the farm must of necessity be sold to a non-family member.

b. The failure to keep the farm in the family may be due to the lack of heirs, or if heirs are present, they may be unwilling to invest in the family farm at current high prices. The operating heir is not available or willing to take over when the owner is ready to retire, having lost interest in the home place because of uncertainty in expectations. The heirs-at-law may sell the farm to an outsider not being aware of the desires of the deceased about maintaining ownership in the family; or it may be easier for the administrator of an estate to sell the farm to an outsider than to work out disagreement among heirs. Heirs, desirous of buying the farm, may lack the necessary capital. If one of the heirs purchases the farm, the assumption of excessive debt may cause him to lose it in event of an economic crisis.

c. A program encouraging farm parents to stress the need of keeping the farm in the family by cultivating in their offspring pride and attachment in the home place, may overcome this obstacle in part. Open discussion of the desires of landowner will tend to mitigate possibility of discord among

heirs since they are aware of parents' strong feeling. A father-son agreement may keep the son interested in farm until the father is ready for retirement; it will also enable the son to take over the farm by degrees and mitigate the possibility of excessive debt. This agreement may include a flexible financial arrangement enabling the son to buy the farm at little risk of losing it if economic conditions change.

4. Minimization of inter-generation farm transfer costs.[1]

   a. The costs of transferring farm property between generations of farm families are not being reduced to the minimum possible. These costs may seriously reduce the value of property going to the surviving spouse and heirs.

   b. The reluctance of farm parents to transfer property before death or to make a plan effective at death results in higher transfer costs. Farm parents may fail to consult legal and tax counsel in working out and drawing up transfer plans, thinking such services an unnecessary expense. The settle-

[1]Farm transfer costs include medical and funeral expenses of the deceased, administrative expenses, attorney fees, state inheritance taxes, federal estate taxes and court costs involved in the settlement of decedent's estate.

ment procedure required of small estates is too complex and too costly to be in the public interest. It requires a longer period of time when minor heirs are involved, thereby increasing costs. Oftentimes the efforts of parents to provide for equal rather than equitable distribution cause friction among heirs, or disagreement may be due to the failure of parents to discuss the transfer plan with members of the family at the proper time. This friction increases the possibilities that transfer costs will not be minimized.

c. An education program designed to acquaint farm people with the true costs of estate planning, also the costs and problems involved when such counsel is not employed, may overcome reluctance of farm parents. A simplified, shorter and cheaper procedure for small estates may be put into effect, and printed will forms could be used when estates are small and uncomplicated. With this information and assistance, farm parents would be more able to make a transfer plan consistent with other objectives and minimizing costs.

5. Provision of early assistance to children.

a. Few farm parents transfer farms or render other forms of assistance to children until late in the life of children or before the death of parents.

As a result, the farm is not transferred to the operating heir until the most productive years of his life are past and short-term expectancy develops. Some young people leave the farm because no plan of assistance is devised within the family, or uncertainty as to who will get the home farm may keep children from farming or prevent them from making needed improvements in case they are renting.

b. Farm parents frequently are confused as to what can be done and as a result do nothing or put off plans until it is too late. They may be reluctant to give any assurance of assistance because of their own need for retirement security. The farm owner may feel that early transfer is risky in view of the operating heir's lack of capital and experience, or that such a transfer may be considered unfair to other children. Many farmers are not ready to retire when the son is ready to take over. This age gap between generations may become more significant as the life span increases. Untimely assistance may be due to the custom of not making transfer decisions until the death of the owner; or it may be due to the reluctance or superstition about discussing and making plans of

transfer. The parents may hesitate to give up control because of sentimental attachment to the family homestead.

c. An informative program, devised to convey to farm parents that a small amount of assistance given at the proper time may be of more significance than a larger amount at another time, may help farm families attain this objective. Early planning and a father-son arrangement can offset the effects of the age gap. The youngest son rather than the oldest may take over, or if the age gap is too great, the parents can leave their children a life estate, and their grandchildren a fee simple interest (remainder). In any event, children should know at an early age what to expect and when to expect it.

6. Prevention of excessive debt on part of operating heir who takes over the farm.

a. The operating heir may be forced into debt beyond his repayment ability, in buying farm from other heirs. Heavy mortgages are frequently given either to other heirs or to loan companies for funds with which to make the purchase. An economic crisis may develop and as a result the operator's standard of living may be reduced, or he may be forced to

exploit the soil and improvements in his struggle to keep the home farm in the family. In certain cases he may lose all or part of the farm.

b. The operating heir is in a poor bargaining position with regard to purchase price due to sentimental attachments to the home place, disagreement among members of the family, or because death of the landowner occurred during a period of inflated prices of farm land. Other heirs may want their share of the estate, so the operating heir resorts to outside sources, paying high terms for borrowed capital. Equal sharing of estate among children often results in a heavy capital requirement for the heir who buys the farm, especially if a spouse survives and there are many children.

c. In selling the farm to a member of the family, an appraisal based on a 30-year average of yields and prices may be used, thereby preventing an inflated value being used to determine the purchase price. Under a father-son agreement a farm may be transferred at less than its market price, allowing concessions in the amount of down payment required and letting the inheritance of the heir account for the down payment. Legislation may be enacted permitting the operating heir to buy out the other heirs at the appraised agricultural value rather

than at the market price. An insurance policy on the father's life, naming the son as beneficiary may assist the son in buying out other heirs. Premiums of the policy may be paid out of the undivided farm profits of the farm operating agreement.

7. Transferring the farm business as a going concern.
   a. The farm plan disintegrates as a going concern in the process of settling the estate. Livestock, feed, and farm equipment are usually sold separately from land and buildings, personal property being divided among the heirs without a sale, thus impairing the capacity of the farm to produce or earn an income, i.e., the momentum of continuous production is interrupted. Several years may elapse before the farm is back in full production.
   b. Farm parents may make no provision for continuous farm operation during the transfer because of a desire to let the children work things out for themselves. The break-up of the going concern may result from the failure of a father-son operating agreement to develop into a father-son transfer agreement because of a clash in personalities or attractive opportunities for the son elsewhere. The decedent's debts or transfer costs may result in the sale of personal property to a non-family

member.

c. An educational program can stress the need to maintain farm business as a going concern and present the farm family with alternative means of accomplishing this objective. A father-son operating agreement may be coordinated with some plan for the eventual transfer (preferably before the death of the father) of title to all farm property; or the incorporation of farm assets may maintain continuous production while ownership of the farm is being transferred. Sources of ready funds can be made available through insurance and savings so that costs of transfer can be paid without having to sell any personal property.

8. Maintenance of the farm as an economic unit.[1]

a. In the estate settlement, oftentimes the farm land is divided into a larger number of operating units. This division may result in less efficient use of resources, in ill-shaped fields and farms which make farm operation more difficult, or in the emergence of scattered tract farms and field renting which give rise to heavy cash crop farming.

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[1]Assumption is made that farm is of adequate size upon the death of landowner, hence any division is considered undesirable for the purposes of this study.

b. Equal physical subdivision of real property may be due to the philosophy of distributing the property equally among the several heirs, with no single heir possessing the capital to purchase the other heirs' interests. The landowner may fail to make a plan providing for the property to be transferred intact, or the land may be partitioned due to friction or disagreement among heirs. Excessive transfer costs may cause part of the land to be sold, and a large number of heirs plus a surviving spouse increases the probability of subdivision.

c. Educational programs can acquaint the landowner with the need to make transfer plans that will not divide a farm of adequate size into smaller units, and with the need to provide liquid assets to the extent that transfer costs or demands of creditors will not result in forced sale of part of the real property. Change in legislation may be made to ban division of farms into units that are not adequate to support a farm family. If a will is prepared, there may be a greater opportunity to reduce subdivision by making bequests of personal property to some of the heirs.

The remainder of this study is concerned with testing these hypotheses and presenting the results of the inquiry.

FRAMEWORK OF THE INTRA-FAMILY FARM TRANSFER PROCESS

The choice of method of distributing farm property within the family is practically unlimited. With few exceptions the property owner may plan for the distribution as he sees fit. In event no plans are made before death, the distribution is determined by the state laws of descent. Choice of method is influenced by several factors. These include the composition of the landowner's family, the nature and value of farm property owned, and the objectives to be achieved by the transfer process. In this study an attempt was made to obtain information concerning these factors from each of the respondent landowners and about their deceased relatives. This chapter discusses these elements of the transfer process.

Farm Transfer Plans

Extent of and factors associated with transfer planning

Each interviewee was asked if he had a will or any other plans for transferring property which were drawn up into a written document. If the answer was negative, the next query was, "Do you have plans made up in your mind as to how you are going to transfer any of your property?" If the respondent had no plans in writing or in mind, he was then asked, "Do you know how the law would distribute your property among your family, and is such a division satisfactory with you?"

Table 4 summarizes the responses to these questions. Thirty-eight, or 40 per cent, of the interviewees had written transfer plans and 25, or 27 per cent, of the respondents had plans in mind for the transfer of their property. Only 31, or 33 per cent, of the ex ante group had no plans for transferring their property; however, ten members of this group indicated dissatisfaction with the state laws of descent and intended eventually to make written plans of their own. Thus 73, or 78 per cent, of the respondent landowners either had a written transfer plan or expected to make one in the future.

The intention to make plans in the future will be of no avail to those who die before doing so. Forty-five per cent of the first group[1] of deceased relatives were reported to have had a will at time of death as compared to 40 per cent of the second group[2] of deceased relatives (Table 4). These percentages, ranging from 40 to 45 per cent, would seem to indicate how many of the respondents are likely to make wills before death. Therefore, if 78 per cent of the respondents expect to make a written plan, it appears likely that some of them may die before taking such action.

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[1]The first group of deceased relatives is made up of the parents or spouse of the respondent.

[2]The second group of deceased relatives includes the first group as well as the relatives of the respondent's spouse from whom the respondent or spouse has received financial assistance.

Table 4. Transfer plans of respondents and deceased relatives, number and percentage

Item	Respondents		Deceased Relatives I[a]		Deceased Relatives II[b]	
	Number	Per cent	Number	Per cent	Number	Per cent
Plan in writing	38	40.4	21	44.7	31	39.7
Plan in mind	25	26.6	-	-	-	-
No plan	31	33.0	26	55.3	47	60.3
Satisfied with law of descent	(21)	(22.4)	-	-	-	-
Not satisfied with laws of descent	(10)	(10.6)	-	-	-	-
Total	94	100.0	47	100.0	78	100.0

[a]The first group of deceased relatives includes the parents or spouses of the respondents.

[b]The second deceased group is made up of the first group plus the relatives of the respondents' spouses from whom the respondents or spouses received assistance.

The average age at which the 38 respondents made their wills was 53.2. The range was 27 to 81 years, with 13 making their will when over 60 years of age. Only two of the respondents had made wills previous to the one in effect at the time of interview. Comparing the two groups of deceased relatives, the average age at which 21 of the first group had made their wills was 68.4. The range was 47 to 88 years, with 13 making their wills when over 60 years of age. The second group of deceased relatives had made their wills at the average age of 67.8, with the ages ranging from 40 to 88 years. Twenty-two of 30 deceased relatives had not made their wills until after reaching the age of 60. These statistics present some evidence that in this generation wills are being made at an earlier age than in the past generation.

A fact which appeared to cause the respondents to make a plan for transferring property was that the deceased relative also had made a plan. Plans had been made by 18 of the 21 respondents whose relatives had died with a plan; however plans had been made by only 15 of the 26 respondents whose deceased relatives had died without a plan. (There is a statistical difference between the two groups at the five per cent level). Perhaps the respondent felt that a plan was needed after experiencing the prompt settlement of an estate of a close relative who died leaving a plan to be followed.

Characteristics of Farm Families Studied

In many situations, the characteristics of the landowner's family influence to a major degree the objectives he aspires to achieve and thereby determine the plan he makes for transferring his property. The landowner who has children ready to start farming may be more concerned with seeing that they receive assistance in getting a start than the owner whose children are of pre-school age. As the respondent nears the age of retirement he may become more aware of the need to take steps to insure an adequate retirement income.

Age and sex of respondents and deceased relatives

The ages of the respondent landowners and the two groups of deceased relatives are presented in Table 5 by age classes and according to sex. The average age of the respondents was found to be 55.5, with a range from 30 to 84 years. The two groups of deceased relatives had an average age of 73.5 and 70.9 years at time of death. The respondents were about 15 years younger than the average age upon death of the second group of relatives, whereas the first group of deceased relatives was 18 years older at time of death than the average age of the respondents when interviewed. Assuming that the present landowners of Jefferson County live as long as their ancestors, they have 15 to 18 years on the average to make and complete plans for transferring their property.

Table 5. Respondents and deceased relatives by age groups according to sex, number and percentage

Years of age	Respondents				Deceased Relatives I				Deceased Relatives II			
	Number of cases	Per cent	Male Per cent	Female Per cent	Number of cases	Per cent	Male Per cent	Female Per cent	Number of cases	Per cent	Male Per cent	Female Per cent
Below 45	20	21.3	95.0	5.0	1	2.1	100.0	0	4	5.4	100.0	0
45 to 54	27	28.7	85.2	14.8	0	0	0	0	2	2.7	100.0	0
55 to 64	23	24.5	87.0	13.0	5	10.6	80.0	20.0	10	13.5	70.0	30.0
65 to 74	16	17.0	93.8	6.2	19	40.4	84.2	15.8	26	35.1	73.1	26.9
75 and over	8	8.5	87.5	12.5	22	46.8	72.7	27.3	32	43.2	68.8	31.2
Total	94	100.0	89.4	10.6	47	100.0	78.7	21.3	74[a]	100.0	73.0	27.0
Average age	55.5		55.3	56.8	73.5		72.0	78.7	70.9		70.8	74.9

[a]The ages of four relatives in the second group were not given.

The ages of female landowners were higher in all three groups than that of their male counterparts (Table 5). The average age of the female respondents and the average age at death of female relatives in both groups of deceased persons was 56.8, 78.7 and 74.9 years respectively. The age difference between the two sexes may be attributed to the longer life span of women.[1]

Size of family

The problem of insuring an adequate retirement income is not so difficult for the farm owner whose spouse has predeceased. The number of children in the family may also have an impact on his transfer objectives.[2] Of the 94 respondents, 86 or 91.5 per cent had a living spouse at the time of interview. The average age of these spouses was 50.8 years. There was a surviving spouse in 26 of the 47 cases which make up the first group of deceased relatives. The average age of these surviving spouses was 62.7 at the death of the other spouse.

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[1]The average expectation of life at birth in the United States in 1952 was 66.6 years for white males and 72.7 years for white females. Department of Health, Education, and Welfare. National Office of Vital Statistics. Abridged Life Tables, United States, 1952. Vol. 40, No. 9, p. 200. 1955.

[2]The respondent with only one child need not be too concerned with the objective of equitable treatment.

The number of children reported by respondents and deceased relatives is shown in Table 6. The respondents had an average of only 2.34 children, compared to 4.83 children for the first group of deceased relatives. All of the families making up the deceased group had one or more offspring, whereas 20 or 21.3 per cent of the respondents had no children. This fact tends to increase the probability that the average number of children may increase for the respondent group in the future. One of the female respondents was under 45 years of age and 31 of the female spouses were below 45; therefore it seems likely that the average number of respondents' children may increase. Almost a fourth of the deceased group had eight or more children as compared to only 3.2 per cent of the respondents. Sixty per cent of the deceased relatives had four or more children per family, whereas 60 per cent of the respondents had two children or less. This contrast in the size of families between the two groups will be discussed further in the next section.

Educational level attained by respondents and their children

The respondents were asked to indicate the highest grade attained in school. The average grade in school completed by the 94 respondents was 9.6. Approximately 50 per cent of these landowners went beyond the eighth grade with 27.7 per cent finishing high school, whereas less than one out of ten continued their education beyond the secondary level (Table 7).

Table 6. Number of children reported by respondents and for deceased relatives by transfer plan, number and percentage

Number of children	Respondents						Deceased relatives I					
	All cases		With plans		Without plans		All cases		With plans		Without plans	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
None	20	21.3	11	55.0	9	45.0	0	0	0	0	0	0
One	17	18.1	12	70.6	5	29.4	3	6.4	0	0	3	100.0
Two	20	21.3	15	75.0	5	25.0	8	17.0	3	36.7	5	63.3
Three	19	20.2	12	63.2	7	36.8	7	14.9	3	42.9	4	57.1
Four	5	5.3	4	80.0	1	20.0	9	19.1	3	33.3	6	66.7
Five	3	3.2	2	66.7	1	33.3	4	8.5	3	75.0	1	25.0
Six	4	4.2	3	75.0	1	25.0	3	6.4	2	66.7	1	33.3
Seven	3	3.2	3	100.0	0	0	2	4.3	1	50.0	1	50.0
Eight or more	3	3.2	1	33.3	2	66.7	11	23.4	6	54.6	5	45.4
Total	94	100.0	63	67.0	31	33.0	47	100.0	21	44.7	26	55.3
Average number	2.34	-	2.41	-	2.19	-	4.83	-	5.48	-	4.31	-

Table 7. Highest grade completed in school by respondents and respondents' children according to sex, number and percentage

Highest grade completed	Respondents						Respondents'[a] children					
	All cases		Male		Female		All cases		Male		Female	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
1 to 7	7	7.4	7	8.3	0	0	2	1.9	1	1.9	1	1.9
8	39	41.5	33	39.3	6	60.0	16	15.2	12	23.1	4	7.5
9 to 10	14	14.9	13	15.5	1	10.0	4	3.8	2	3.9	2	3.8
11 to 12	26	27.7	25	29.8	1	10.0	56	53.3	28	53.8	28	52.8
over 12	8	8.5	6	7.1	2	20.0	27	25.7	9	17.3	18	34.0
Total	94	100.0	84	100.0	10	100.0	105	100.0	52	100.0	53	100.0
Average grade	9.6		9.57		10.0		11.84		11.27		12.4	

[a]Includes only the 42 respondents whose children had completed their formal educational training.

In regard to sex and the educational level attained, only 40 per cent of the female respondents continued their education beyond the eighth grade, as compared to 52 per cent of the male landowners; however a greater percentage of the women respondents went to college. The fact that more men than women respondents failed to complete high school and enter college can be supported by noting that 50 per cent of the women who entered high school also entered college, while only 14 per cent of the men achieved this goal. This difference between the two groups[1] may be due to the greater tendency for the male children to interrupt their educational careers in order to assist their parents with the farm work.

Table 7 also indicates the amount of education received by the children of the 42 respondents whose children were all out of school. In contrast to their own educational attainment, an average of 9.6 years, their children completed the average grade of 11.84 with 79 per cent of them going beyond the first two years of high school. The tendency for women to remain in school longer than men still persists, but to a lesser degree. Thirty-eight per cent of the female children as compared to 23 per cent of the male children who entered high school also entered college.

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[1]The difference between the two groups is significant at the 10 per cent level.

Relationship of transfer planning to family characteristics

The percentage of landowners making transfer plans was found to vary with age. Sixty-three, or 67 per cent, of the 94 respondents had plans for transferring their property (Table 8). Less than one-third of the respondents under 45

Table 8. Respondents reporting plans by age groups, number and percentage

Years of age	All cases	Reporting plans	
	Number	Number	Per cent
Below 45	20	6	30.0
45 to 54	27	17	63.0
55 to 64	23	17	73.9
65 to 74	16	16	100.0
75 and over	8	7	87.5
Total	94	63	67.0

years of age had a plan as compared to all of the respondents in the 65 to 74 age group. The single exception in the 75-and-over age class was a widow whose husband had died four years ago, leaving his estate to his spouse and two grown daughters. The respondent was renting the land to a non-relative and was satisfied with the state laws of descent. The average age of the respondents with plans was 59.6 as compared to 47.2 for the respondents without plans.

The female landowners were found to have made transfer plans less often than the male landowners. Thirty per cent of the females and 42 per cent of the males of the second group of deceased relatives died testate. Of the landowners interviewed, 57 of 84, or 68 per cent of the male landowners had a plan in writing or in mind, whereas only 6 of 10, or 60 per cent, of the female landowners had such a plan.[1] The reason for this difference may lie in the dependence of the female on the male in making important business decisions; however, the difference between the two sexes appears to be less for the present than for the past generation.

The size of family may also have some effect on the planning process. The respondent group with plans had an average of 2.41 children per family, while those without plans had only 2.19 (Table 6).[2] The same relationship prevailed with the deceased group. Those with plans having 5.48 children compared to 4.31 for those families not having a plan. A large number of children may complicate the settlement of

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[1]Transfer planning by a female may be limited in that her rights in the property may have been determined by the transfer plan of her husband. However, all of the female respondents interviewed in this study had full rights in the property they possessed.

[2]Age is also a factor contributing to this difference. The respondents with plans were 12.4 years older on the average than the respondents without plans.

an estate and making a plan is one way for those with the larger families to simplify the transfer process.

The proportion of landowners reporting plans apparently is little affected by the formal educational achievement of the landowners. Table 9 presents the highest grade completed in school by the respondents and their children according to the transfer plan. A greater percentage of the respondents with plans (one out of ten) continued their education beyond high school than did the respondents without plans (one out of 15). No children of the respondents without plans went beyond high school, whereas approximately one-third of those with plans saw fit to send their children to college. This relationship may be a function of net worth or perhaps the landowners with enough vision and foresight to make a transfer plan also recognized the need of providing their children with a college education. In any event the education of the landowners' children represents a financial burden and in some ways may conflict with other transfer objectives. The present landowners are providing their children with more education than they received (Table 7); however, they had fewer children at the time of interview than their parents had upon their death.

Table 9. Highest grade completed in school by respondents and their children according to transfer plan, number and percentage

Highest grade completed	Respondents				Respondents children			
	Plan		No plan		Plan		No plan	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
1 to 7	5	7.9	2	6.4	2	2.2	0	0
8	25	39.7	14	45.2	15	16.7	1	6.7
9 to 10	10	15.9	4	12.9	3	3.3	1	6.7
11 to 12	17	27.0	9	29.0	43	47.8	13	86.6
Over 12	6	9.5	2	6.5	27	30.0	0	0
Total	63	100.0	31	100.0	90	100.0	15	100.0

Property Owned by Respondents and Deceased Relatives

Value of farm property

The value of resources or property owned by the landowner tends to influence the transfer process by placing certain limitations on what can be accomplished regardless of plan. For example, a landowner of limited means may have trouble in insuring economic security for self and spouse, whereas a person with more property may be able to establish his children in a business of their choice. Because of this influence, the respondents were asked to estimate the market value of their property at the time of interview. The value and amount of property owned by the deceased relatives upon their death was obtained from the probate records.

The average net worth of the respondents was $45, 137 and $18, 331 for the deceased relatives (Table 10). This net worth figure indicates the value of property that would be transferred in the settlement of the respondent's estate, assuming he had died at the time of interview, or that was transferred in the settlement of the deceased relative's estate before the deduction of estate settlement costs. The respondents and the members of the deceased group with transfer plans had a larger average net worth than those without plans. The respondents with plans had an average net worth

Table 10. Average value of property owned by respondents and deceased relatives II by transfer plan, dollars and percentage of net worth

Item	Number of cases	Farm real estate	Urban real estate	Cash and bank deposits	Personal property[a]	U.S. bonds	Other stocks and bonds	Due from debtors	Due to creditors	Net worth on death	Insurance
Respondents											
with transfer plan	63	29985	4696	1952	13712	1321	1459	817	4243	49716	*2416
% of net		60.3	9.4	3.9	27.6	2.7	2.9	1.6	-8.5		
without transfer plan	31	25410	2274	916	9923	468	0	13	3173	36477	*2855
% of net		69.7	6.2	2.5	27.2	1.3	0	0.1	-8.7		
all cases	94	28477	3897	1621	12463	1040	978	552	3890	45137	2560
% of net		63.1	8.6	3.6	27.6	2.3	2.2	1.2	-8.6		
Deceased relatives II											
with transfer plan	28	15513	1178	1192	863	1898	602	1137	1243	21140	0
% of net		73.4	5.6	5.6	4.1	9.0	2.8	5.4	-5.9		
without transfer plan	47	11186	678	1223	1016	690	544	2081	757	16657	480
% of net		67.1	4.1	7.3	6.1	4.1	3.3	12.5	-4.5		
all cases	75[b]	12801	862	1211	959	1141	566	1729	939	18331	301
% of net		69.8	4.7	6.6	5.2	6.2	3.1	9.4	-5.1		

*Significant at the ten per cent level.

[a]Personal property includes the farm machinery, livestock, feed, household effects, and automobile.

[b]Three members of the deceased group had died testate leaving all property to a sole beneficiary; therefore there was no property listed on the inventory.

of $49,716 as compared to $36,477 for those without plans.[1] Members of the deceased group without plans had a net worth of only $16,657, whereas those with plans had $21,140.[2] The reason for this difference may rest upon the fact that as a person accumulates more property one becomes increasingly aware of the need to make transfer plans.

Size of the land holdings

The average value of farm land holdings accounted for the major part of the average net worth figure for the respondents and the deceased group. The value of farm land was 63 per cent of the average net worth for the respondent landowners and 70 per cent for the deceased relatives (Table 10). In view of the importance of farm land holdings, the average acres owned (with other related facts) by the respondents and deceased relatives are shown in Table 11. In making this tabulation, only the proportionate share of acres owned as tenants-in-common and remainder interest were included; however, all acres owned in joint tenancy were included because all such property is considered as part of the taxable estate.

The average amount of acres owned by the landowners in the two groups was found to be about the same, 164.9 acres

[1]This difference between the respondents with plans and those without is significant at the 10 per cent level. The t value was 1.692.($t_{10(92)}$ = 1.662).

[2]This difference between members of the deceased group with and without plans is only significant at the 30 per cent level. The t value being 1.073. $t_{30(73)}$ is 1.045.

Table 11. Average size and value of land holdings of respondents and deceased relatives by transfer plan

Item	Respondents			Deceased relatives II		
	All cases	With plans	Without plans	All cases	With plans	Without plans
Landowners	94	67%	33%	65[a]	38.5%	61.5%
Acreage owned	15500	67.2%	32.8%	10544	43.2%	56.8%
Value of land owned ($)	2,676,798	70.6%	29.4%	960,096	45.2%	54.8%
Average owned acres per owner	164.9	165.4	163.8	162.0	182.0	150.0
Average value of land per owner ($)	28,477	29,985	25,410	14,771	17,375	13,143
Average value per acre ($)	173	181	155	91	95	88

[a]Ten members of the deceased group owned no farm land upon death, and three had no property listed on the inventory.

for the respondents and 162.0 acres for the deceased group (Table 11). However, in both groups the landowners with plans had larger holdings than those without plans. The deceased relatives, with and without plans, owned an average of 182.0 and 150.0 acres respectively. Nevertheless, the difference between those with plans and those without was not so great for the landowners making up the respondent group, 165.4 acres for those with plans compared to 163.8 for those without plans

In analyzing the relationship between size of land holdings and the size of family, it was found that the respondents with larger families also owned more land. The 18 respondents with four or more children owned an average of 175.7 acres and the 76 landowners with three or less children owned only 162.3 acres. A similar relationship but a greater difference was found when only the male children were considered. The average acreage owned by the 31 respondents who had two or more sons was 176.9, whereas only 159.0 acres were owned by the 63 respondents with less than two sons. Even though the size of land holdings varies somewhat with the size of family, the landowners of Jefferson County may have serious problems in distributing a 164.9 acre farm among 2.34 children.

Kinds of ownership interests

The landowner must consider the type of ownership interest he has in the farm property when thinking about the transfer process, for the type of interest possessed by the owner "often determines what may or may not be done in transferring the property."[1] The kinds of interests or rights in the land as possessed by the respondents and deceased relatives are presented in Table 12. A life estate and a purchase contract are also included in the table. Even though there may be no transferable interests involved in these two types of rights, they are included for they represent available resources which may be used to achieve certain objectives during the lifetime of the owner.

The most common form of ownership was found to be the fee simple, the most exclusive property right an individual can hold. Approximately 80 per cent of the deceased group had such a right as compared to only 52 per cent of the respondent landowners. This difference[2] between the two groups may be indicative of a trend away from outright individual ownership to a type of co-ownership, termed joint tenancy,

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[1]Timmons and O'Byrne, op. cit., p. 157.

[2]This difference between the two groups of landowners is significant at the one per cent level.

Table 12. Kinds of ownership interests by respondents and deceased relatives, number, percentage and average acres

Kind of ownership interest	94 Respondents			66[a] Deceased relatives II		
	Number of cases	Per cent	Average acres	Number of cases	Per cent	Average acres
Fee simple	49	52.1*	156.1	54	81.8*	174.5
Joint tenant	39	41.5	147.7	0	0	-
Tenants-in-common	27	28.7	72.9	18	27.3	78.2
Remainder	4	4.3	69.3	0	0	-
Purchase contract	2	2.1	46.0	1	1.5	50.0
Life estate	1	1.1	260.0	0	0	0
Total[b]	122	129.8	-	73	110.6	-

*Significant at the one per cent level.

[a]The records failed to reveal the kind of interest owned by 12 members of the deceased group.

[b]Some of the landowners had more than one type of ownership interest.

the second most common type of ownership for the respondent group (Table 12). Several of the deceased relatives owned government bonds as joint tenants; however, no cases involving the use of joint tenant rights in land were reported. Tenants-in-common, another form of co-ownership, was used by both groups in almost identical proportions, 28 and 27 per cent.

In order to indicate the relationship between ownership rights and transfer planning, the data in Table 12 are rearranged and presented in Table 13 by transfer plan. There appeared to be no significant difference between the use of the several types of ownership interests and transfer planning on the part of the deceased relatives; however, 92 per cent of those with plans used fee simple, while over one-third of those without plans used tenants-in-common. There was a significantly higher proportion of the respondents with plans using fee simple, as well as a significantly higher proportion of respondents without plans using joint tenancy as a form of ownership.[1] There is some evidence[2] of a higher frequency

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[1]Both of these differences are significant at the 2.5 per cent level.

[2]From recent studies made in Dane County, Wisconsin it appears that more persons within the younger age groups than in older age groups hold property in joint tenancies. See Edward H. Ward and J. H. Beuscher. The Inheritance Process in Wisconsin. Wisconsin Law Review. Vol. 1950, No. 3. p. 398.

Table 13. Kinds of ownership interests by respondents and deceased relatives by transfer plan, number and percentage

Kind of ownership interest	94 Respondents				66[a] Deceased relatives II			
	63 with plans		31 without plans		26 with plans		40 without plans	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Fee simple	38	60.3*	11	35.5*	24	92.3	30	75.0
Joint tenant	21	33.3	18	58.1	0	0	0	0
Tenants-in-common	20	31.7	7	22.6	3	11.5	15	37.5
Remainder	0	0	4	12.9	0	0	0	0
Purchase contract	1	1.7	1	3.2	1	3.8	0	0
Life estate	1	1.7	0	0	0	0	0	0
Total[b]	81	128.6	41	132.3	28	107.6	45	112.5

*Significant at the 2.5 per cent level.

[a]The records failed to reveal the kind of ownership interest held by 12 members of the deceased group.

[b]Some of the landowners held more than one kind of ownership interest.

of such cases among the people in the younger age groups, and the respondents without plans were 12.5 years younger on the average than those with plans.

Another explanation for these differences may lie in the fact that those individuals who own all their property in fee simple, having the exclusive right to distribute their property as they see fit, find it easier to make a plan. Whereas the individuals who own some of their property as joint tenants with another person may find it more difficult to have a meeting of minds as to the final distribution of the property. Perhaps the respondents who own their land in joint tenancy look upon this type of ownership as a means of transferring their property and therefore see no need to make another transfer plan. However, most of the respondents were joint tenants with their spouses and some other transfer plan will have to be made to transfer the other property to their children, i.e., if the distribution provided by state law is unsatisfactory. Other problems which arise in respect to ownership rights will be developed in more detail in later sections.

Value of other resources

The extent of other farm property, savings, life insurance and other investment holdings may be a decisive factor in solving the transfer problems for some landowners, especially those with limited land holdings. The asset with the

second highest average value (farm land being first) owned by the respondents was that of personal property (Table 10). Personal property includes the farm machinery, livestock, feed, household effects, and automobile, making up 27.6 per cent of the average net worth figure. Since many of the deceased relatives had retired and possessed little or no livestock and farm machinery, the value of their personal property only contributed 5.2 per cent to their average net worth. The value of urban real estate ranked third in contributing to the respondents' net worth figure. Those with plans had urban real estate with an average value of $4696 as compared to $2274 for the respondents without plans. This difference may be the function of age. Since the respondents with plans were older and in all probability had moved to town, more of them reported owning residential property than the landowners with no plans.

Liquid assets, such as cash on hand, bank deposits, government bonds, other securities, and notes receivable, made up the remainder of the respondents' and deceased relatives' net worth statement. As expected, such assets accounted for 25.3 per cent (Table 10) of the deceased groups' net worth figure as compared to only 9.3 per cent for the respondent group. An explanation for this difference may rest on the fact that the landowner today must invest practically all of his liquid assets in the farm business.

In Chapter II, the hypothesis was developed that the farm parents tend to depend on their investment in the farm business for financial security in their old age. In an attempt to test this hypothesis more fully, the types of saving or investment made by the respondents and deceased relatives are shown in Table 14. All of the respondents as compared to only 87 per cent of the deceased group owned some farm land. A significantly[1] higher proportion of respondents owned livestock and equipment. As previously mentioned, more of the deceased persons before death had retired from farm operation and did not own livestock or farm equipment.

Only 54 per cent of the respondents owned life insurance with a face value equal to 5.6 per cent of their average net worth. Less than one out of four of the respondents reported investing in U. S. bonds or other securities. These facts support the contention that farm parents as a whole depend on their investment in the farm business to provide for their old age security more than any other way.

Objectives of Farm Transfer Plans

It is difficult to evaluate the effectiveness of the transfer process until something is known of the objectives

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[1]The difference is significant at the ten per cent level.

Table 14. Types of saving or investment of respondents and deceased relatives by transfer plan, percentage

Type of saving or investment	94 Respondents						75[a] Deceased relatives II					
	All cases		63 with plans		31 without plans		All cases		28 with plans		47 without plans	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Farm land	94	100.0	63	100.0	31	100.0	65	86.7	25	89.3	40	85.1
Urban real estate	28	29.8	21	33.3	7	22.6	19	25.3	11	39.3	8	17.0
Livestock and equipment	80	85.1*	53	84.1	27	87.1	55	73.3*	23	82.1	32	68.1
Cash and bank deposits	93	98.9**	62	98.4	31	100.0	56	74.7*	22	78.6	34	72.3
Insurance	51	54.3	34	54.0	17	54.8	2	2.7	0	-	2	4.3
U. S. Bonds	23	24.5**	19	30.2	4	12.9	14	18.7**	5	17.9	9	19.1
Other securities	5	5.3**	5	7.9	0	0	27	36.0**	13	46.4	14	29.8
All other	9	9.6	8	12.7	1	3.2	28	37.3	8	28.6	20	42.6

*Significant at the ten per cent level.

**Significant at the one per cent level.

[a]Three members of the deceased group had no property listed in the probate records.

or purposes the process is intended to accomplish.[1] Early in the interview, the landowners were asked, "What are the main things that you are trying to achieve or what are your family objectives in these plans which you have mentioned?" After the free responses were recorded, the owners were shown the list of objectives which were developed in Chapter II, and asked, "Are you seeking to accomplish any of these objectives?" The prompting technique was deemed advisable and adopted when during the pre-test, the respondents showed considerable reluctance in revealing their transfer objectives. The responses of the landowners to these two questions are presented in Table 15.

Occurrence of different objectives

Almost all of the respondents mentioned one or more objectives before seeing the prepared list; only 9, or about 10 per cent, failed to mention any objectives. The average number of objectives mentioned during the free response was 1.79 (Table 15). After seeing the prepared list, an average of 2.88 objectives was reported per owner. However, 33 of the 94 respondents failed to mention any additional objectives upon seeing the prepared list. The objectives mentioned most

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[1] ". . .to find out what are the purposes is. . .essential to an interpretation and evaluation of practices." Timmons, Social and Economic Aspects of the Devolution of Agricultural Land Through Descent, Will and Gift. op. cit.,p. 136.

Table 15. Intra-family transfer objectives of respondents by transfer plan, number and percentage

Transfer objective	Free responses[a]						Prompted responses[b]					
	Number of cases	Per cent	63 with plans: Number	63 with plans: Per cent	31 without plans: Number	31 without plans: Per cent	Number of cases	Per cent	63 with plans: Number	63 with plans: Per cent	31 without plans: Number	31 without plans: Per cent
Adequate retirement income	79	84.0	54	85.7	25	80.6	94	100.0	63	100.0	31	100.0
Equitable treatment of children[c]	35	61.4	28	70.0*	7	41.2*	52	91.2	38	95.0	14	82.4
Keep farm in the family	21	22.3	17	27.0	4	12.9	48	51.1	35	55.5	13	41.9
Minimize transfer costs	15	16.0	11	17.5	4	12.9	39	41.5	29	45.9	10	32.3

*Significant at the ten per cent level.

[a]Responses obtained before landowners were shown prompt cards containing list of prepared objectives.

[b]Responses obtained after landowners were shown prompt cards containing list of prepared objectives.

[c]In calculating the percentage of all cases mentioning this objective, 57 was used as 100% since 57 respondents had more than one child. For the respondents with plans 40 was used as 100%, and for those without plans the number used was 17.

Table 15. (Continued)

Transfer objective	Free responses[a]						Prompted responses[b]					
	Number of cases	Per cent	63 with plans: Number	63 with plans: Per cent	31 without plans: Number	31 without plans: Per cent	Number of cases	Per cent	63 with plans: Number	63 with plans: Per cent	31 without plans: Number	31 without plans: Per cent
Early assistance to children[d]	15	20.3	11	21.2	4	18.2	25	33.8	18	34.6	7	31.8
Prevent excessive debt	2	2.1	1	1.6	1	3.2	5	5.3	4	6.3	1	3.2
Protect going concern	1	1.1	1	1.6	0	0	4	4.3	3	4.8	1	3.2
Maintain economic unit	0	0	0	0	0	0	4	4.3	3	4.8	1	3.2
No objectives	9	9.6	4**	6.3	5**	16.1	0	0	0	0	0	0
Average number	1.79		1.95**		1.45**		2.88		3.06*		2.52*	

**Significant at the five per cent level.

[d]In calculating the percentage of all cases having this objective, 74 was used as 100% since that number had children. For respondents with plans, 52 was used as 100%, and for those without plans the number used was 22.

often during the free response were also mentioned most frequently after viewing the prepared list. The only exception was the objective of minimizing transfer costs. This objective ranked fifth in number of times mentioned before the respondents were prompted; however, it rose to fourth place afterwards. With the exception of three objectives, namely adequate retirement income, equitable treatment of children and early assistance to children, the number of respondents giving each objective more than doubled as a result of the prompting technique. Nevertheless, these three objectives did show an increase in percentage of times reported to the following extent: retirement income, 84 to 100 per cent; equitable treatment, 61 to 91 per cent; and early assistance, 20 to 34 per cent. Regardless of the final outcome, the prompting technique was designed to provide responses comparable to those that would have been obtained had the respondents been given a longer period of time to consider their transfer objectives.

The same information was sought pertaining to the deceased relatives of the 47 respondents from which an *ex post* schedule was taken. In other words, each of these respondents was asked to designate what transfer objectives he thought had been possessed by his deceased parents or spouse. This information is presented in Table 16. Four of the respondents indicated a lack of knowledge regarding the objectives their deceased relatives were trying to achieve in transferring

Table 16. Intra-family transfer objectives of deceased relatives by transfer plan, number and percentage

Transfer objective	Deceased relatives I					
	Cases		21 with plans		26 without plans	
	Number	Per cent	Number	Per cent	Number	Per cent
Adequate retirement income	42	89.4	21	100.0	21	80.8
Equitable treatment of children	35	79.5[a]	18	85.7	17	73.9[b]
Keep farm in the family	18	38.3	10	47.6	8	30.8
Minimize transfer costs	6	12.8	4	19.0	2	7.7
Early assistance to children	14	29.8	6	28.6	8	30.8
Prevent excessive debt	2	4.3	1	4.8	1	3.8
Protect going concern	1	2.1	0	0	1	3.8
Maintain economic unit	2	4.3	0	0	2	7.7
No objectives	4	8.7	0	0	4	15.4
Average number	2.55		2.86		2.31	

[a]This percentage was calculated using 44 as 100 per cent as 44 families had more than one child.

[b]This percentage was calculated using 23 as 100 per cent as 23 of the deceased relatives without plans had more than one child.

their property. Another landowner mentioned that his father died rather young in life and he doubted if his parent had had time to think about sources of retirement income. With these five exceptions, the respondents of the ex post schedule felt that their relatives had tried to achieve an adequate retirement income. At the other extreme, less than 13 per cent felt that minimizing transfer costs, preventing excessive debt, protecting the going concern, and maintaining the farm as an economic unit had been among the transfer objectives of their deceased relatives. Overall, the respondents thought that their relatives possessed an average of 2.55 objectives.

A comparison of the transfer objectives held by the two groups is made possible by the data in Table 17. In general there is a similarity in the number of objectives held by the two groups, with more emphasis placed on transfer costs by the respondents and less emphasis placed on the going concern by the deceased group. In the case of transfer costs, 39 or 42 per cent of the respondents as compared to only 6 or 13 per cent of the deceased relatives reported this objective. This highly significant difference[1] between the two groups may be accounted for by the fact that the average

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[1]The difference between the two groups is significant at the one per cent level.

Table 17. Comparison of intra-family transfer objectives of respondents and deceased relatives, number and percentage

Transfer objective	Respondents		Deceased relatives I	
	Number	Per cent	Number	Per cent
Adequate retirement income	94	100.0*[a]	42	89.4*[b]
Equitable treatment of children	52	91.2	35	79.5
Keep farm in the family	48	51.1**	18	38.3**
Minimize transfer costs	39	41.5	6	12.8
Early assistance to children	25	33.8[c]	14	29.8
Prevent excessive debt	5	5.3	2	4.3
Protect going concern	4	4.3	1	2.1
Maintain economic unit	4	4.3	2	4.3
Average number	2.88		2.55	

*Significant at the ten per cent level.

**Significant at the one per cent level.

[a]In calculating this percentage, 57 was used as 100 per cent since only 57 of the respondents had more than one child.

[b]In calculating this percentage, 44 was used as 100 per cent since 44 of the deceased group had more than one child.

[c]In calculating this percentage, 74 was used as 100 per cent for 20 of the respondents had no children.

net worth of the respondents is three times that of the deceased group (Table 10); therefore members of the present generation have cause to be more concerned about transfer costs.[1] On the other hand, the deceased group had seemed to be less mindful of the going concern. The justification for this difference may be vested in the fact that the deceased relatives possessed more liquid assets than the respondents, hence the danger to the going concern was minimized. There is a significantly higher proportion[2] of respondents mentioning the equitable treatment objective, 91 per cent as contrasted to 80 per cent for the deceased group. This difference may be due to the larger number of children in the deceased relatives' families or to a memory bias. Further evidence of a memory bias exists in the difference between average number of objectives held by the two groups, 2.88 for the respondents and 2.55 for the deceased group. Even though memory bias may be a factor, it would appear that the respondents were the best possible source of information concerning the transfer objectives of their deceased parents or spouses.

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[1]Average transfer costs vary directly in proportion to value of the estate as shown in a later section.

[2]The difference in proportion of respondents holding the equitable treatment objective is significant at the ten per cent level.

Extent to which respondents and deceased relatives achieved objectives

After indicating what his transfer objectives were, each respondent was asked if he thought he had or would be able to achieve them. He was also asked whether or not his deceased relative had achieved the goals that he, the respondent, thought the deceased relative possessed. Some of the respondents answered these questions with a "no", "don't know", "maybe", or "perhaps"; however, only the "yes" answers to these questions are reported in Table 18. In calculating the proportion indicating achievement, the members of each group not having a specific objective were omitted.

The respondents thought they had or would achieve 55 per cent of all their expressed objectives, which is lower than the 90 per cent reported by the respondents as being achieved by their deceased parent or spouse. This significantly[1] lower proportion of respondents expressing achievement may be due to the fact that they can anticipate on the average 15 to 18 more years in which to achieve their goals or that because of pride they were hesitant about indicating non-achievement

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[1]The proportion of respondents expressing achievement of transfer objectives is significantly lower than the deceased group at the one per cent level. Memory bias may be another factor accounting for this difference, since the rate of achievement was calculated by omitting the deceased relatives who did not have certain objectives.

Table 18. Achievement of objectives by respondents and deceased relatives by transfer plan, number and percentage [a]

Transfer objectives	Respondents						Deceased relatives I					
	94 all cases		63 with plans		31 without plans		47 all cases		21 with plans		26 without plans	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Adequate retirement income	59	62.8*	47	74.6*	12	38.7*	38	90.5*	19	90.5	19	90.5
Equitable treatment of children	35	67.3*	29	76.3*	6	42.9**	32	91.4*	17	94.4	15	88.2
Keep farm in the family	23	47.9*	19	54.3	4	30.8	16	88.9*	9	90.0	7	87.5
Minimize transfer costs	15	38.5	13	44.8	2	20.0	4	66.7	3	75.0	1	50.0
Early assistance to children	10	40.0*	10	55.6	0	0	14	100.0*	6	100.0	8	100.0
Prevent excessive debt	2	40.0	2	50.0	0	0	2	100.0	1	100.0	1	100.0
Protect going concern	2	50.0	1	33.3	1	100.0	1	100.0	0	0	1	100.0
Maintain economic unit	3	75.0	2	66.7	1	100.0	1	50.0	0	0	1	50.0
All objectives	149	55.0*	123	63.7*	26	33.3*	108	90.0*	55	91.7	53	88.3

*Significant at the one per cent level.

**Significant at the 2.5 per cent level.

[a]The respondents and deceased relatives who did not have certain objectives were omitted in calculating the rates of achievement.

of goals on the part of their deceased relatives. In any event, the percentage expressing achievement of a particular goal was higher for the deceased group than for the respondent landowners, except for maintaining the farm as an economic unit. In this case, three out of the four respondents who expressed this objective reported achievement, whereas only one of the two deceased relatives had maintained the economic unit in the transfer process.

On the other hand, the relative failure of the respondents to express the achievement of more objectives may merely be an indication of hard times. Many of the landowners were suffering from a decrease in farm income and from an increase in costs of production at the time of interview. Such an outlook may very well cast doubts in the minds of many landowners as to the success of achieving transfer objectives; for example, the insuring of economic security for old age. Other significant differences between the two groups will be discussed in later sections.

Importance of specific objectives

After indicating the degree to which he had achieved his objectives, each respondent was asked to rank his objectives according to importance. In other words, he was asked to designate which of his goals he considered to be of first importance to him,of second, etc.. Such an evaluation was

requested, for in the event of a conflict between objectives, the landowner will use his resources to accomplish the objective which is the most important to him and his family. Table 19 presents the results of this evaluation process. Only the first three levels of importance are shown in the table, the last columns presenting the evaluation in the aggregate. Thirteen of the respondents were unable to indicate a second choice and 43 were unable to make a third choice because of the limited number of objectives possessed by the respondent.

An adequate retirement income was rated the most important objective by 81 per cent of the respondents, 16 per cent put this objective in second place, and one per cent relegated it to third position. All in all, a total of 92, or 98 per cent, of the respondents reported this objective as either first, second, or third on their scale of values. Three objectives, the prevention of excessive debt, the protection of going concern, and the maintenance of an economic unit, were not rated as first in importance by any of the 94 respondent landowners.

In the aggregate, the respondents divided the objectives into three different areas of importance (Table 19). The objectives of adequate retirement income and equitable treatment were ranked the highest, with 98 and 95 per cent of the respondents respectively indicating each of these objectives as one of their three most important objectives. The ob-

Table 19. Ranking of objectives according to importance by respondents, number and percentage

Transfer objective	Rated as first in importance		Rated as second in importance		Rated as third in importance		Rated as first, second or third in importance	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Adequate retirement income	76	80.9	15	16.0	1	1.1	92	97.9
Equitable treatment of children[a]	9	15.8	35	61.4	10	17.5	54	94.7
Keep farm in the family	5	5.3	9	9.6	13	13.8	27	28.7
Minimize transfer costs	1	1.1	13	13.8	14	14.9	28	29.8
Early assistance to children[b]	3	4.1	7	9.5	9	12.2	19	25.7
Prevent excessive debt	0	0	1	1.1	2	2.1	3	3.2
Protect going concern	0	0	0	0	1	1.1	1	1.1
Maintain economic unit	0	0	1	1.1	1	1.1	2	2.1

[a]Only 57 of the respondents had more than one child; therefore 57 was used as 100 per cent in calculating the percentage of owners ranking this objective.

[b]Since 20 of the respondents had no children, 74 was used as 100 per cent in calculating the percentage of owners ranking this objective.

jectives of keeping the farm in the family, minimizing transfer costs, and the giving of early assistance to children were given a medium classification, with 29, 30, and 26 per cent of the respondents respectively; and in the lowest class, the objectives of preventing excessive debt, protecting the going concern, and maintaining the economic unit, with 3, 1, and 2 per cent of the respondents respectively ranking each of these objectives as one of their three most important objectives. For the respondents as a whole, the objectives of an adequate retirement income and equitable treatment of children appear to be the most important in resolving the conflicts between objectives, with the other six objectives assuming lesser roles in the transfer process.

Association of farm transfer objectives to transfer planning

In an effort to determine the association of two important factors of the transfer process, the transfer objectives and the existence of transfer planning, the following questions were considered: First, was there any connection between the number of objectives mentioned before and after seeing the prepared list and transfer planning? And second, what was the relationship in the existence of a transfer plan and the extent of achievement of transfer objectives?

The respondents with plans gave an average number of 1.95 objectives and those without plans only mentioned an

average of 1.45 before seeing the prepared list (Table 15). This difference was found to be significant at the five per cent level.[1] A higher average number of objectives was also given by the respondents with plans after seeing the list than by those without plans; however, this difference is only significant at the ten per cent level.[2] Another indication of the relationship between objectives and transfer planning is given by comparing the percentages of those respondents, with and without plans, who did not mention any objectives at all before the prompting procedure. Over 16 per cent of those without plans failed to indicate any objectives as compared to only 6.3 per cent of the respondents with plans. After the prompting technique had been used, a greater percentage of the respondents without plans gave additional objectives than did those with plans (Table 15). This evidence would seem to indicate that transfer planning made the landowners more aware of their objectives and therefore they needed less help in stating their transfer objectives than the owners without plans.

This relationship between transfer planning and number of objectives also prevailed for the deceased group. Deceased relatives without plans had an average of 2.31 objectives

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[1]The t value equals 2.14 ($t_{.05(90)}$ is 1.987).

[2]The t value equals 1.88 ($t_{.10(90)}$ is 1.662).

which is less[1] than the 2.86 found for the group with plans (Table 16). All of the deceased group with plans were thought to have had some objectives, whereas 15 per cent of those without plans had no objectives. However, as mentioned earlier, this difference may be due to a memory bias on the part of the respondents and not the result of transfer planning.

In examining the relationship between transfer planning and the achievement of expressed objectives, the respondents with plans were found to have achieved a significantly greater proportion of all objectives than those of the group without plans. The owners with plans expressed the achievement of 64 per cent of their objectives as compared to only 33 per cent on the part of those without plans (Table 18). This difference[2] indicates that a transfer plan may cause the landowners to think that a higher proportion of their objectives will be achieved. However, in the case of the deceased relatives, the existence of a transfer plan appeared to have little effect upon the achievement of objectives; both groups achieved approximately the same proportion.

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[1]This difference is only significant at the 20 per cent level. The t value is 1.41 ($t_{.20(45)}$ is 1.301).

[2]This difference is statistically significant at the one per cent level.

In summarizing the association of transfer objectives and transfer planning, it appears that the very act of formulating a transfer plan enables the landowner to visualize his transfer objectives more vividly and leaves him with a confidence that he will achieve more of his objectives.

FAILURE AND SUCCESS ELEMENTS OF THE INTRA-FAMILY FARM TRANSFER PROCESS

One purpose of this study was to determine how farm parents and their children can transfer the farm property and achieve the optimum in regards to their transfer objectives. In this chapter, the hypotheses concerning the problems, obstacles and possible solutions of the transfer process, will be tested. The problems associated with the achievement of each objective will be examined by focusing attention on the failure and success elements of the intra-family farm transfer process.

Achieving Adequate Retirement Income

Desirability and importance of an adequate retirement income as an objective

This objective of attaining an adequate retirement income was believed to be the most important of all objectives, with 98 per cent of the respondents rating it as either first, second, or third in importance (Table 19). All of the respondents and 89 per cent of the deceased relatives held this objective as a goal of the transfer process (Table 17). Only 63 per cent of the respondents expressed achievement, whereas over 90 per cent of the deceased group were believed to have achieved this objective (Table 18). This significant dif-

ference[1] between the two groups in the achievement of an adequate retirement income may be due to the increase in living standards since the last generation or perhaps the deceased relatives tended to be more satisfied with what they had. In addition to these factors, the purchasing power of the dollar has decreased considerably in the last decade and the respondents may possess the belief that the cost of living will continue to rise, making achievement more difficult. No empirical data substantiating this theory were obtained; however, this difference may be considered as evidence that the respondents regarded the attainment of economic security during old age as more of a problem than did their deceased parents.

Sources of retirement income of respondent and spouse

Each of the respondent landowners was asked to indicate the sources of their retirement income. For the 22 respondents who were retired at time of interview, actual sources were requested, whereas the question referred to anticipated sources of retirement income in the remaining 72 cases. All but two of the respondents mentioned income from their farm land as actual or anticipated sources (Table 20). These

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[1]This difference is significant at the one per cent level.

Table 20. Sources of retirement income of respondents and surviving spouses, number and percentage

Source of retirement income	All cases	
	Number	Per cent
Respondents: (94)		
Farm rent	92	97.8
Interest	34	36.2
Part time work	18	19.1
Social Security	10	10.6
Expected inheritance	4	4.3
Annuity plan	3	3.2
Other	2	2.1
Total	163	173.4
Surviving spouses: (86)		
Insurance	43	50.0
Dower rights	35	40.7
Fee simple in all property	33	38.3
Property of her own	28	32.6
Fee simple in real estate	18	20.9
Outside work	16	18.6
Spouse deceased	6	7.0
Life estate in all property	4	4.6
Move in with children	3	3.5
Annuity plan	1	1.2
Total	187	217.4

two exceptions were in the process of making an inter-vivos transfer and therefore could not expect to realize any return from their farm land. One of these respondents was in the process of selling the farm to his son-in-law, while the other had given a purchase contract to a non-relative. Both of these respondents were retired and had indicated achievement of an adequate retirement income for self and spouse.

Thirty-four respondents mentioned interest on savings or income from investment as the next most common source of retirement income (Table 20). Nineteen per cent expected to receive or were receiving income from part time employment, and 14 per cent were dependent upon social security and annuities for portions of their retirement income. Four of the respondents were looking forward to an expected inheritance as anticipated sources of income. For the respondents as a class, an average of 1.7 sources of retirement income was mentioned in all.

No attempt was made to obtain from the respondents the actual amount of income received or expected from each of these sources. However, since the majority of them expected to live on their accumulated capital as a source of retirement income, their income may be approximated by making the following assumptions: first, those respondents who have not retired will retire with their present net worth; second, they will be able

to obtain a return of five per cent on their net worth; and third, this return from accumulated capital is the only source of retirement income.

Table 21 shows the average net worth of the respondents by their class of net worth. The net worth of the respondents ranged from $4,865 to $181,200. Based on the assumptions made, the retirement income from the respondents' net worth alone would vary from a low of $243 to a high of $9,060 per year. More than one-half, or 55 per cent, of the respondents would have an annual retirement income of less than $2000 with only 22 per cent receiving more than $3000 per year (Table 21). Of those respondents with a net worth of less than $40,000, 52 per cent expressed the achievement of an adequate retirement income.

In looking for an explanation to this expressed satisfaction with their outlook for economic security during retirement, the respondents were found to have property-owning spouses in 30 per cent of the cases (Table 21). The net worth of the 28 property-owning spouses ranged from $2000 to $49,650, with an average of $16,732.

When the net worth of the respondents and their spouses are combined, 51 per cent have a net worth of less than $40,000 and would receive a retirement income of less than $2,000. Of the 48 respondents in this class of less than $40,000 net worth, 48 per cent indicated that they would achieve their

Table 21. Average net worth of respondents and property owning spouses and extent of achievement of retirement income objective by net worth

Item	Net worth				
	Less than $20,000	$20,000 to $39,999	$40,000 to $59,999	$60,000 and over	All cases
All respondents					
Number of cases	22	30	21	21	94
Percentage of all cases	23.4	31.9	22.3	22.3	100.0
Average net worth ($)	13,932	28,377	48,640	98,270	45,244
Percentage who expressed achievement of retirement income objective	27.3	70.0	61.9	90.5	62.8
Respondents with property-owning spouses					
Number of cases	7	10	3	8	28
Percentage of respondents with property-owning spouses	31.8	33.3	14.3	38.1	29.8
Average net worth of spouse by respondent's net worth ($)	5,475	14,213	14,400	30,606	16,732
Total net worth of respondent and spouse					
Number of cases	19	29	23	23	94
Percentage of all cases	20.2	30.8	24.5	24.5	100.0
Average net worth ($)	14,467	28,907	48,356	107,089	50,122
Percentage who expressed achievement of retirement income objective	31.6	58.6	65.2	91.3	62.8

goal of securing an adequate retirement income. On the other hand, 21 of the 23 respondents with a combined net worth of $60,000 or more and an estimated annual retirement income of more than $3,000 expressed achievement of the retirement income objective. This highly significant difference[1] between the two groups gives some indication of the direct association between the level of net worth and the expressed certainty of achieving economic security for old age.

The strong association between confidence in ability to meet retirement needs and net worth prevails in other areas. In a Wisconsin study,[2] 66 per cent of farm operators with a net worth of more than $20,000 felt they could meet their retirement needs, whereas only 12 per cent of those worth less than $5,000 were confident of their ability to retire on an adequate income.

The respondents were not asked to indicate the amount of cash income they would need to support themselves and their spouses comfortably in later years. However, some idea of the amount thought needed may be arrived at by reviewing the results of four recent studies in which such a question

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[1]The difference is significant at the one per cent level.

[2]William H. Sewell, Charles E. Ramsey and Louis J. Ducoff. Farmers Conceptions and Plans for Economic Security in Old Age. Wisconsin Agri. Exp. Sta. Res. Bul. 182. September 1953. p. 18.

was asked of farm operators.[1] A study made in rural Connecticut revealed that over one-half (52 per cent) of the farm operators interviewed believed they will need $100-199 per month.[2] The figure most commonly mentioned by farm operators in Texas when asked to estimate their monthly retirement needs was $100 or more.[3] The estimated monthly requirements after retirement for a group of Kentucky farm operators ranged from under $40 to over $160, with a median of about $87.[4] Farm operators in Wisconsin most commonly placed the amount as between $75 and $148 per month, when asked how much cash per month would enable self and spouse to live comfortably after retirement.[5]

Under the Old-Age and Survivors Insurance (OASI) program, the monthly retirement payment to a covered farmer and wife varies from $45 to $162.80.[6] Such a sum can be considered as

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[1]In these studies farm operators included tenants and landlords, whereas this study is confined to landlords only.

[2]Walter C. McKain, Jr., Elmer D. Baldwin and Louis J. Ducoff. Old Age and Retirement in Rural Connecticut. Storrs Agri.Exp.Sta.Bul. 299. June 1953. p. 24.

[3]William G. Adkins and Joe R. Motheral. The Farmer looks at his Economic Security. Texas Agri.Exp.Sta.Bul. 774. January 1954. p. 15.

[4]Robert E. Galloway. Farmers' Plans for Economic Security in Old Age. Kentucky Agric.Exp.Sta.Bul. 626. p. 21.

[5]Sewell, Ramsey and Ducoff, op. cit., p. 16.

[6]U.S.D.A., Development of Agriculture's Human Resources. April 1955. p. 40. See table 13 for social security benefits payable to those qualifying after August 1954.

providing for minimum requirements for "one of the objectives of social security is that the OASI program attempts to provide minima of economic security. . . ."[1] In view of the above data and granting that retirement needs vary with the cost of living and the living standards that prevail in a particular area, $200 per month has been used as a norm in the subsequent analysis to determine the adequacy of the retirement income of farm parents. A cash income of $200 per month or $2400 a year produced from investments or equity yielding five per cent represents a net worth of $48,000.

Thirty-five of the respondents and spouses, or 37 per cent had a combined net worth of over $48,000. Therefore, on the basis of the assumptions made, about 63 per cent of the respondents would not realize an adequate retirement income. Of the group that would receive less than $2400 return on accumulated capital, only 53 per cent, or 31 out of 59, expressed the opinion that they would achieve the adequate retirement income objective. Whereas, for those cases receiving more than $2400, 28 out of 35, or 80 per cent were certain of their ability to achieve a comfortable retirement income. The difference between the two proportions is statistically significant at the one per cent level.

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[1]Gene Wunderlich. Social Security in Agriculture: A Preliminary Appraisal of its Operation, Implications, and Emerging Problems. JFE. Vol. 38. February 1956. p. 18.

Some of the respondents indicating satisfaction with their ability to achieve an adequate income for retirement may have felt that they would be able to accumulate more capital before retiring. The respondents with the lowest average net worth also tended to be younger than those with a higher net worth figure.

Twenty-three of the 59 respondents with less than an estimated retirement income of $2400 had sources of retirement income other than returns from capital accumulation and therefore may achieve retirement objective without consumption of capital. Eleven expected to receive income from part time employment and eight were covered by social security because of off-farm employment. Two respondents were anticipating an inheritance and two had annuities. Consequently, of those respondents who lack the necessary net worth, there appears to be several alternative methods whereby 53 per cent[1] may be able to finance their own retirement income.

The social security program did not cover farmers when the respondents were interviewed.[2] However, as farm operators

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[1]As previously mentioned, this is the percentage of the respondents with less than $48,000 net worth that expressed achievement of the retirement income objective.

[2]Beginning with 1955, self-employed farmers with annual net earnings of $400 or more are included in the OASI program.

become qualified, social security payments will supplement other sources of retirement income and enable more retired farmers to achieve economic security during old age.

Age and plans for retirement

Apparently some of the respondents expect to finance economic security during old age by not retiring. Twenty-five respondents, or 29 per cent of the 87 respondents who were or had been farm operators, had made no retirement plans (Table 22). The retirement status of respondents appears to be a function of age and net worth. Thirty-three per cent of those under 55 years of age had no retirement plans, whereas only 18 per cent of those over 65 had failed to make plans for retirement. Of the 50 respondents with less than $40,000 net worth, 30 per cent had no retirement plans, while only 20 per cent of those with $60,000 or more net worth did not possess plans for retirement. Apparently as age and net worth increase, the disposition to make retirement plans also increases. However, a portion of the respondents may tend to think that they will have no problem with retirement income because they are not planning to retire.

The social security program may affect the age and plans for retirement. Of the 21 retired respondents, eight had retired before reaching age 65 and 12 had retired at a later age. Assuming that the OASI program results in retirement

Table 22. Retirement status of respondents by age and net worth, number and percentage

Retirement status	Net worth									
	Less than $20,000		$20,000 to $39,999		$40,000 to $59,999		$60,000 and over		All cases	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Below 45 years of age										
Have retired	0	0	0	0	0	0	1	25.0	1	5.0
Plan to retire	8	100.0	2	40.0	2	66.7	2	50.0	14	70.0
No retirement plans	0	0	3	60.0	1	33.3	1	25.1	5	25.0
45 to 54 years of age										
Have retired	0	0	0	0	0	0	0	0	0	0
Plan to retire	3	50.0	5	62.5	3	50.0	3	100.0	14	60.9
No retirement plans	3	50.0	3	37.5	3	50.0	0	0	9	39.1
55 to 64 years of age										
Have retired	0	0	1	14.3	2	40.0	1	16.7	4	18.2
Plan to retire	2	50.0	4	57.1	2	40.0	3	50.0	11	50.0
No retirement plans	2	50.0	2	28.6	1	20.0	2	33.3	7	31.8
65 and over										
Have retired	2	66.7	7	77.8	4	80.0	3	60.0	16	72.7
Plan to retire	1	33.3	0	0	0	0	1	20.0	2	9.1
No retirement plans	0	0	2	22.2	1	20.0	1	20.0	4	18.2
All ages										
Have retired	2	9.5	8	27.6	6	31.6	5	27.8	21	24.1
Plan to retire	14	66.7	11	37.9	7	36.8	9	50.0	41	47.1
No retirement plans	5	23.8	10	34.5	6	31.6	4	22.2	25	28.8
Total	21	24.1	29	33.3	19	21.8	18	20.7	87[a]	100.0

[a]Seven of the respondents had never been an active farm operator.

at age 65, over a third of these respondents would have retired later and over one-half of them would have retired earlier if the social security program had been in effect. This program may have the same effect on retirement plans. Of the 41 respondents who plan to retire (Table 22), eleven plan to retire before reaching age 65, whereas six plan to wait until a later age before retiring. There is nothing compulsory about retiring at age 65; however, in order to draw benefits one must be earning less than $1200 annually.[1] After age 72 there is no limitation placed on earnings.

Retirement income of surviving spouse

There was a surviving spouse in 26 of the 47 deceased relative cases and 86 of the respondents had a living spouse at the time of interview. Sixty-three per cent of the respondents with spouses expressed achievement of the retirement income objective. The existence of a spouse seemed to have little effect on the confidence of the respondent in achieving the objective, for 62 per cent of those without spouses also indicated satisfaction in their ability to achieve economic security during old age. In the 47 *ex post* cases, 92 per cent of the deceased relatives with a surviving spouse were thought to have achieved an adequate retirement income,

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[1] One may have income from savings of any amount and still receive all benefits.

as contrasted to 90 per cent of those without a surviving spouse. In only four cases did the surviving spouse have less income than she was accustomed to having. It would appear that the existence of a surviving spouse would lead to greater difficulty in achieving an adequate retirement income; however, the empirical data obtained in this study do not support such a relationship.

Each of the respondents was asked to indicate the sources of income for the spouse in event of her death. The responses to this question are presented in the bottom half of Table 20. An average of 2.2 sources was given for each of the 86 surviving spouses.

One of the major sources of income for spouses is the property owned by the deceased. A hypothesis advanced in a previous section stated that surviving spouses may have insufficient income because an inadequate share of the deceased spouse's property is transferred to them. Some of the respondents seemed well aware of this problem. Seventeen of the 86 respondents with living spouses believed the income for the spouse from the present plan of distribution was not enough for her to live as she was accustomed. And when asked the question, "What might you do now so that she will have enough income?", 12 of the respondents said they would make plans giving the spouse more property.

In order to examine this problem more closely, the shares of property going to the surviving spouses of the respondents and deceased relatives are presented in Table 23 along with other related information. Forty-eight per cent of the respondents had given a fee simple and/or life estate in all property, whereas only 27 per cent of the deceased relatives had provided for their spouses in like manner. This difference is only significant at the ten per cent level; nevertheless, it may be considered as evidence that the respondents are attempting to insure their spouses of an adequate income to a greater extent than did their deceased parents.

Eighteen per cent of the respondents and 23 per cent of the deceased group gave their spouses less than a fee simple and/or life estate in all property. A third of the respondents' spouses would receive the statutory share[1] as compared to one-half of the deceased relatives dying intestate. In intestate cases the spouse receives all property only in the event no other heirs of the deceased are living.

Another source of income for the spouse is the return from her own property. Twenty-eight, or 33 per cent, of the respondents' spouses owned property in their own right (Table 20). However, there seemed to be little connection with

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[1]See section 636 of the 1954 Code of Iowa for a discussion of the share going to the spouse when deceased dies without a transfer plan.

Table 23. Share of property going to surviving spouse and number of property-owning spouses by respondents and deceased relatives, number and percentage

Share of property	All cases		Property owning spouses	Achieved retirement objective	Joint tenancy	Spouse beneficiary of insurance
	Number	Per cent	Per cent	Per cent	Per cent	Per cent
Respondents with a living spouse:						
Spouse receiving a fee simple or life estate in all property by written plan	40	48.2	50.0*	77.5	35.0	67.5
Spouse receiving less than a fee simple or life estate in all property by written plan	15	18.1	13.3	60.0	40.0	33.3
Spouse receiving statutory share as a result of having no written plan	28	33.7	17.9	39.3	60.7	60.7
Total	83[a]	100.0	32.5	61.4	44.6	59.0
Deceased relatives with a surviving spouse:						
Spouse receiving a fee simple or life estate in all property by written plan	7	26.9	-	100.0	0	-

*Significant at the ten per cent level.

[a]Eight of the respondents had no living spouse and three respondents failed to indicate the contents of their will.

Table 23. (Continued)

Share of property	All cases		Property owning spouses	Achieved retirement objective	Joint tenancy	Spouse beneficiary of insurance
	Number	Per cent	Per cent	Per cent	Per cent	Per cent
Spouse receiving less than a fee simple or life estate in all property by written plan	6	23.1	-	66.7	0	-
Spouse receiving statutory share as a result of no written plan	13	50.0	-	100.0	0	-
Total	26	100.0	-	91.7	0	-

plans giving all property to spouses and the fact that the spouse may have property of her own. Fifty per cent of the respondents who were planning to give all property to their spouse had a property-owning spouse, as compared to only 13 per cent of those cases where the spouse would receive less than a fee simple and/or life estate in all property (Table 23). On the other hand, 22 of the 28 respondents with property owning spouses felt they would achieve their retirement objective, whereas only 37 of the 66 respondents whose spouses owned no property were confident in their ability to achieve economic security. The difference between the two groups is significant at the five per cent level and provides some evidence that the property owned by their spouses gives the respondents a feeling of greater economic security. Apparently the act of giving all property to their spouses also makes the respondents more certain of achieving an adequate income. Seventy-eight per cent of those giving all expressed achievement of the objective, as compared to 60 per cent of those respondents who gave their spouses less than all property by transfer plan (Table 23).

The property held in joint tenancy with the right of survivorship is another source of income to the surviving spouse. Forty per cent of spouses receiving less than all property would receive some property as joint tenants, as contrasted to 35 per cent of those spouses who would receive a

fee simple and/or life estate in all property by transfer plan. However, in the case of life insurance, another source of income, the spouses who would receive all property were named beneficiaries in a greater percentage of the cases than those spouses who received less than all property. Therefore, the respondents who have provided for their spouses by giving them less than all property have a greater opportunity of buying insurance and thereby provide more adequately for their spouses.

In summary, there appears to be some evidence that the spouses have insufficient income because of the inadequate share of property received from the deceased spouse; however, it also appears that the respondents are aware of this problem and are making efforts to solve it.

Methods of improving retirement income

One method of improving retirement income is the consumption of capital. Little information was obtained from the respondent landowners regarding plans for using this method of increasing retirement income. Many of the respondents when asked what they would do if their income was not enough, said that they would sell their farms, but only as a last resort. However, to get some idea of the opportunity the surviving spouses would have to supplement their income by the consumption of capital, the kind and extent of interest

in property going to the surviving spouses by transfer plan are summarized in Table 24. Seventy-eight per cent of the respondents with plans left their spouses with a fee simple interest in all or part of their property. The deceased relatives in 69 per cent of the cases also gave their surviving spouses a fee simple interest in all or part of their property. In the case of a fee simple interest the spouse has the legal right to consume the capital value of the property.

Fourteen per cent of the respondents with plans gave their spouses a life-time interest in all or a part of the property, as compared to 31 per cent of the deceased relatives leaving such an interest to their spouses. Under a life estate, the spouse does not have the right to consume capital unless she is given the power of appointment. No information as to whether the respondents gave such a power was obtained, but 50 per cent of the deceased relatives giving a life estate to their spouses had also given the power of appointment. However, the surviving spouses of both the testate and intestate deceased relatives did not consume their property except in three out of 26 cases. In all three cases, the surviving spouse sold some of her property for general living expenses because other sources of income were inadequate. Thus, even though the majority of the spouses may have the power to consume property, they may not see fit to exercise this power. It seems logical that the possession of such a

Table 24. Kind and extent of interest going to surviving spouse as the result of a written transfer plan, respondents and deceased relatives, number and percentage

Kind and extent of interest	Respondents with a spouse		Deceased relatives I with a surviving spouse	
	Number	Per cent	Number	Per cent
All property:				
Life estate	6	10.9	4	30.8
Fee simple	33	60.9	3	23.0
Life estate and fee simple combination	1	1.8	0	0
Part of property:				
Life estate	2	3.6	0	0
Fee simple	10	18.2	6	46.2
Life estate and fee simple combination	3	5.5	0	0
Total	55	100.0	13	100.0

right, even though not exercised, may go far in adding to the security and peace of mind of the spouse, for in event of necessity she has resources which can be used.

Apparently the respondents with plans are not using the life estate as frequently as did the deceased group (Table 24). Only 14 per cent of the respondents provided for their spouses by using this device as compared to 31 per cent of the deceased. There is some justification[1] in thinking that the use of the life estate with powers of appointment may increase in the next few years, for the present Internal Revenue Code allows a life estate with such powers to qualify for the marital deduction. The previous code made no such allowance. So in addition to giving added security to the spouse, the use of such a device may result in tax savings.

The power to appoint property may also be used in conjunction with the trust. A trust is an arrangement whereby the respondent may place the management and control of property in the hands of a trustee naming his spouse as beneficiary. The trustee or trustees may be directed to give the spouse a certain portion of the capital or trust fund under certain

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[1]Ralph S. Brown and Walter R. Brown. Uses of Powers of Appointment in Iowa Estate Planning under Current Tax Law. Iowa Law Review. Vol. 40. No. 4. Summer 1955. See page 615 for a discussion of this justification.

stipulated conditions. Such conditions may include provisions for a payment whenever the spouse needs it to maintain her standard of living. No plans for the use of a trust for this purpose were found; however, in one case a deceased relative had made provisions for the formation of a trust upon the death of his surviving spouse.

Another method of obtaining retirement income for the parents or surviving spouse is the annuity contract. The purchase of an annuity contract gives the annuitant the right to receive a certain income for a specified period. It may be purchased by using current income to take effect upon retirement or it can be paid for by accumulated capital at time of retirement, payments to begin immediately. Only three of the respondents had purchased annuities at the time of interview; therefore, the latter method is more likely to be used by those respondents who plan to obtain retirement income by buying annuity contracts. A respondent and spouse, age 65 and 62 years respectively, may purchase a joint annuity which will give both of them or the survivor a monthly income of $200 per month for the capital sum of $47,059. However, no residue from this investment would descend to the heirs of either respondent or spouse.

In addition to providing a certain retirement income for the farm parents, the annuity principle[1] can also be used to transfer the farm to a member of the second generation in return for retirement income payments to the parents. For example, the owner might transfer the farm to his son in return for a promise to pay $200 per month to the parents for life. The son could then purchase an annuity from an insurance company, raising the money by placing a mortgage on the farm.

A similar arrangement has been used for many years in Wisconsin.[2] The parents transfer the farm to the son and in return the son agrees to provide living quarters, food and other items in kind as long as either parent shall live. Only one of the respondents was planning to use this principle. He was planning to give his youngest daughter part of the farm; in return she was to make a home for him as long as he lived. Upon his death she was to receive the remainder of the farm after paying a specified amount to her six brothers and sisters. In three of the ex post cases, the respondent had received farm property after making an informal agreement to provide a home for the surviving parent.

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[1]See Ralph R. Botts. Use of the Annuity Principle in Transferring the Farm from Father to Son. JFE. Vol. 29. No. 2. May 1947. p. 409-424 for a more detailed discussion of the annuity principle.

[2]Parsons and Waples, op. cit., p. 23

In summary, it appears that the respondents have made little use of alternative methods of obtaining and assuring an adequate retirement income for self and spouse. Some of this reluctance to use such techniques may be due to a lack of knowledge on the part of the respondents as to how these devices operate. Thirty-five per cent of the respondents did not know how a life estate functions and 56 per cent were not familiar with the trust. Only 26 per cent of the respondent landowners had any knowledge of life annuities. This apparent lack of knowledge indicates the need for an educational program designed to acquaint farm people with the use and the results of using these techniques. The isolated cases of capital consumption may have been caused by conflicts with other objectives. To the extent that net worth is used for retirement income, fewer resources are available for the accomplishment of other transfer objectives. Such conflicts will be discussed in subsequent sections.

Equitable Treatment of Children

Prominence of equitable treatment of children as a transfer objective

In the minds of the respondents with more than one child, equitable treatment of children was the second most important transfer objective. Ninety-five per cent of the respondents rated it as either first, second, or third in importance

(Table 19). Fifty-two of the 57 respondents with more than one child and 35 of the 44 deceased relatives held this objective as a goal of the transfer process (Table 17). Only 67 per cent of the respondents expressed achievement, whereas 91 per cent of the deceased group were thought to have achieved this objective (Table 18). Thus, a lower percentage of the deceased relatives held the objective of equitable treatment, while a higher percentage was thought to have achieved it. It seems reasonable to assume that the probability of unequal treatment would increase with the number of children, and since the deceased had more children (Table 6) the futility of holding this objective would be greater for the deceased group. The significantly[1] higher proportion of deceased relatives expressing achievement may be the result of differing viewpoints of the respondent, depending on whether he was speaking as a child receiving assistance or as a parent giving it. The respondent in expressing the opinion that his parents had achieved the equitable treatment objective was speaking as only one of several children involved. Whereas in speaking for himself as a parent he was thinking of all his children. It would be necessary to interview all the children of the deceased to determine whether or not all chil-

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[1]The difference in the proportions expressing achievement is statistically significant at the one per cent level.

dren had been treated on an equitable basis. Also there is some indication that when the respondent was speaking as a child, he considered only lifetime assistance. In all three cases where the deceased failed to achieve the objective, the giving of unequal lifetime assistance was mentioned as the reason for failure.

The respondents with plans expressed achievement of the equitable treatment objective to a greater extent than did the respondents without plans (Table 18). Seventy-six per cent of the former as compared to only 43 per cent of the latter indicated satisfaction in their ability to achieve this goal.[1] This difference may be due to the belief that with a plan, one has greater flexibility in making allowances for any unequal lifetime assistance by providing for an unequal division of the estate, and in those cases where the children have been given unequal lifetime assistance, equitable treatment would result. On the other hand, the state law of descent provides for equal sharing of the estate and only in the event of equal lifetime assistance would the result be equitable. A similar relationship existed between the deceased relatives, with and without plans, but not to a significant extent.

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[1]The difference between the two groups of respondents is significant at the 2.5 per cent level.

The extent that children have been treated on an equitable basis

An analysis as to whether the children of the respondents and deceased relatives received equitable treatment involves a comparison of the lifetime assistance rendered and the assistance received when the estate is settled. In other words, if the children receive an equal and fair share of the estate as well as equal lifetime aid, then it is assumed that they have been treated on an equitable basis for the purpose of this study.

The estates of 39 of the 44 deceased relatives with more than one child were divided equally among the children (Table 25). Therefore, according to the previous assumption, if there was equitable treatment in these 39 cases the children had to have equal treatment before the death of the relative. In 23 of these cases equal sharing of the estate resulted from the relative dying intestate, i.e., without making plans to do so. The remaining 16 estates were divided equally because the parent desired such a division and had taken positive steps to see that it took place. Only 11 per cent of the relatives' estates were divided on an unequal basis. Thus it would appear that 89 per cent of the relatives believed they had given their children equal treatment before their death, and indeed this must be the case for those who desired to achieve the equitable treatment objective.

Table 25. Equal and unequal division of estate among the children of respondents and deceased relatives with more than one child, number and percentage

Item	Respondents		Deceased relatives I	
	Number	Per cent	Number	Per cent
Equal division				
Transfer plan	31	54.5	16	36.4
Intestate	17	29.8	23	52.3
Unequal division				
Transfer plan	9	15.8	5	11.3
Total cases	57	100.0	44	100.0

The respondents' estates were divided equally among the children less frequently than the deceased relatives' estates. Thirty-one of the respondents had made plans giving their children an equal inheritance and 17 had no plan other than to let the estate be divided equally by the law of descent. Therefore if the respondents made no additional plans before death, 48 out of 57, or 84 per cent of the estates would be divided equally. Even though a smaller percentage of the respondents' estates were shared equally (84 per cent as compared to 89 per cent of the relatives), a greater proportion of the respondents than of the relatives had made plans which resulted in equal treatment. The respective proportions in this case are 54 per cent for the respondents and 36 per cent for the relatives. This difference is significant at the ten per cent level and may indicate that the respondents thought a plan was needed to achieve other objectives to a greater extent than the relatives. The respondents had more objectives than the deceased group (Table 17).

Sixteen per cent of the respondents' estates would be divided on an unequal basis, whereas only 11 per cent of the relatives saw fit to make such a distribution. The difference[1] may be a reflection of sample size or an indication that the

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[1]This difference is not statistically significant.

respondents are more aware that unequal sharing of the estate is necessary for equitable treatment if the children have not been treated equally during the parents' lifetime.

The extent of unequal lifetime assistance to children is indicated in Table 26. Only the respondents whose children were all out of school are included in the subsequent analysis. For example, four of the 29 respondents in this category gave educational assistance beyond high school to only some of their children. Only in one of these four cases would the property be divided unequally, resulting in equitable treatment, assuming the respondents do not change their transfer plans before death. In total there were 64 individual instances where unequal lifetime assistance was rendered. Of this number, only 31 per cent would receive an unequal portion of the estate; thus it appears that 69 per cent of these individual situations may result in non-equitable treatment.

Some of the respondents may make adjustments in their plans or in the amount of lifetime assistance given to particular children and still achieve the objective when the property transfer takes place. Some clue as to whether or not the respondents take such action may be indicated by the deceased relatives. Six of the 44 deceased relatives with more than one child had given educational assistance beyond high school to only some of their children. However, in only one of these cases, where the estate was divided on an un-

Table 26. Comparison of unequal lifetime assistance to unequal division of estate by respondents and deceased relatives, number and percentage

Kind of assistance	Respondents			Deceased relatives I		
	Unequal lifetime assistance	Unequal division of estate	Per cent of unequal sharing cases	Unequal lifetime assist-ance	Unequal division of estate	Per cent of unequal sharing cases
	Number	Number		Number	Number	
Education[a]	4	1	25.0	6	1	16.7
Cash gifts	3	1	33.3	4	1	25.0
Gifts of land	1	1	100.0	4	0	0
Gifts of livestock, feed and equipment	7	3	42.9	7	1	14.3
Loans of livestock, feed and equipment	3	0	0	6	0	0
Sale of livestock, feed and equipment[b]	1	0	0	1	0	0
Labor assistance	8	3	37.5	5	0	0
Management help	7	2	28.6	7	0	0
Loans of cash	4	0	0	12	2	16.7
Rented land	16	5	31.2	27	3	11.1
Rented land below going rate	4	2	50.0	5	1	20.0
Worked at home without compensation	6	2	33.3	12	1	8.3
Total	64	20	31.2	96	10	10.4

[a]Educational assistance beyond high school.

[b]At a reduced price.

equal basis, was there any opportunity of achieving the goal of equitable treatment. In total there were 96 cases where the relatives rendered unequal assistance but only 10 per cent of this number achieved the objective by making an unequal division of their estate. Therefore, if the present generation reacts to this situation in the same manner as the past generation, it appears very unlikely that the respondents will take the necessary steps to achieve the equitable treatment objective.

Inequitable treatment may also result from the assistance children give to their parents. For example, if one of the children provides a home for the parents or works on the family farm without compensation, the objective of equitable treatment is not achieved upon equal sharing of the estate by all the children; i.e., inequitable treatment will result unless the parents have given this child more lifetime assistance than the other children. Table 27 indicates the kinds of assistance rendered parents, whether or not such assistance was paid for, and the extent that the relatives' estates were divided equally.

In 13 of the ex post cases, the parents had been provided a home by some of the children. The parents paid for this assistance in nine cases,[1] whereas in the remaining four

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[1]In three of these nine cases, the parents had made compensation by charging the respondents less than the going rental rate for the farm land.

Table 27. Unequal assistance rendered to parents and equal sharing of estate, number

Kind of assistance	Number of cases	Testate		Intestate
		Equal sharing	Unequal sharing	Equal sharing
Home for parents, compensated	9	2	2	5
Home for parents, not compensated	4	1	0	3
Food from farm, compensated	3	0	1	2
Food from farm, not compensated	1	0	0	1
Attention while sick, compensated	8	3	2	3
Attention while sick, not compensated	6	1	1	4
Worked at home, compensated	9	3	2	4
Worked at home, not compensated	13	4	1	8
Total, compensated	29	8	7	14
Total, not compensated	24	6	2	16

instances where the children received no compensation the estate was divided among the children equally, share and share alike. In total the respondents' parents had failed to make any compensation before death for reverse assistance[1] in 24 individual cases, and the estates were divided equally in all but two of them. Thus there is some evidence that the deceased group failed to achieve the objective of equitable treatment because unequal reverse assistance often was followed by an equal division of the estate.[2]

Equitable treatment and farm improvements made on farms rented to children

Inequitable treatment of children may result from equal sharing of the estate by virtue of children making improvements at their own expense on the farms rented from parents. Only in event the parents give other forms of assistance to compensate for this expense would equal sharing upon death of the parent result in equitable treatment. Table 28

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[1]The assistance given to parents by the children is called reverse assistance to distinguish it from assistance that is normally rendered to children by the parents.

[2]In the above analysis, one type of unequal assistance may be offset by another. Also there may be other factors not taken into consideration which would enable achievement of objectives.

Table 28. Rental of land to children and compensation made for improvements by respondents and deceased relatives, number and percentage

Item	Respondents		Deceased relatives I	
	Number	Per cent	Number	Per cent
Total cases where land was rented	22	100.0	31	100.0
Cases where renting child:				
Constructed improvements at landowner's expense	5	22.7	6	19.4
Constructed improvements at own expense	3	13.6	3	9.7
Constructed improvements at own expense and equal division of estate occurred	1	4.5	2	6.5
Had an agreement to be compensated for constructing improvements	1	4.5	3	9.7
Desired improvements but did not construct them	2	9.1	4	12.9
Reasons for not constructing desired improvements:				
Lack of capital	0	0	0	0
Lack of assurance of acquiring farm	0	0	2	50.0
Lack of assurance of being compensated	2	100.0	2	50.0

indicates the number of respondents and deceased relatives renting land to their children and the extent that compensation was made to the renting child along with other related information.

The respondents had rented land to children in 22 cases, and in eight of these cases improvements had been constructed by the tenant child. The landowner or respondent had paid for the improvements in five instances, while the renting children paid for the improvements in the remaining three. In two of these three cases the respondents' estates would be unequally divided. Thus in only a third of the cases was there an opportunity for inequitable treatment to result because the tenant children paid for improvements and then shared the estate equally with the rest of the children.

On the other hand, the respondents had rented land from their parents in 31 individual instances, with improvements being made by nine of the tenants. However, the parents had paid for the improvements in six cases with the respondents paying the cost in three. In two of these three cases the deceased parents' estate was divided equally; thus the respondents appeared to have received inequitable treatment from this source to a greater degree than did their own children.

The respondents were asked if any improvements had been desired but not constructed and the reasons for not making such improvements. Only two of the respondents' children

were thought to have desired improvements but had not constructed them. In speaking for themselves as tenants renting their parents' land, four respondents indicated that they had wanted to construct certain improvements but had failed to do so. In all six cases, the reason given for not constructing improvements was because the tenant had no assurance of either being compensated or of acquiring the farm in the settlement of the estate (Table 28).

Remedial measures to achieve equitable treatment of children

The majority of respondents and deceased relatives who had the equitable treatment objective were thought to have achieved it; however, there was evidence in some cases that the respondents' children may not receive equitable treatment and that it was not received by the children of some members of the deceased group. In order for more farm families to achieve this objective the farm parents must be made aware that equal division of the estate may not be equitable because one child has received a college education while another stayed home and helped on the farm without compensation. In such instances, it "becomes necessary for the parents to stipulate in writing a more equitable division."[1] In two

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[1]Walrath and Gibson, op. cit., p. 27.

of the ex post cases this advice was followed in that the transfer plan provided that the advancements given to the younger children should be regarded as a portion of their inheritance.

Some of the respondents were found to have a mistaken idea or concept of an equitable distribution. Therefore, a method of acquainting the farm family with the fact that the children should share in the estate according to their contributions to the family and the farm may aid in preventing inequitable treatment.

In the case of unequal assistance, bonds of maintenance may provide a method of paying children for the care of parents, or the renting child may be given an interest bearing note payable out of the estate for improvements that have been constructed at the child's expense. When a child works at home for some years receiving only board and keep, he could be given an option to buy the farm and as compensation for his labor the price of the farm could be reduced so much for each year that he has worked on the farm. Such arrangements should be openly and freely discussed with all members of the family, and to protect all parties they should be in writing.

For those landowners who die intestate it may be necessary to change the laws of inheritance, making it possible for the courts to give recognition in the final settlement

of the estate to the interest that the respective children have displayed in the care of the parents, to the proper management and upkeep of the farm, and to the past assistance given to the children.

The possibility of conflicting objectives may be another obstacle in the achievement of equitable treatment. In order to provide continuity of farm ownership and to maintain the farm business as a going concern, the landowner may be forced to sacrifice equitable treatment. On the other hand, since the respondents indicated that this objective was more important it would seem that such sacrifices would be made in only isolated cases.

Maintaining Continuity of Ownership Within Family

Should the farm remain in the family?

The desirability of keeping the farm in the family is a question that each landowner must decide for himself. It may be unwise to make such a decision for a number of reasons. Sometimes no children are interested in farming. The lack of interest, if there is a potential operating heir, may be due to the fact that the farm is too small or opportunities elsewhere have a greater appeal. Conflicts with more important transfer objectives may be another frustrating factor. It may be difficult to turn over an adequate farm unit free

and clear to a single heir and still be assured of security in retirement and treatment that is equitable for all concerned. According to Dr. Timmons, ". . .the purpose of equality and of providing security for the parents may frustrate the purpose of making the child remaining on the farm the owner of the land he operates."[1] It may be easier to sell the farm to a non-relative than to work out a land settlement among the heirs. Lack of pride and sentiment may be another reason for letting an outsider take over the homeplace.

Even though only 29 per cent of the respondents ranked this objective as one of their first three most important (Table 19), 51 per cent of them had made a positive decision in respect to maintaining the farm in the family (Table 17). As previously mentioned, farm owners with this objective are the ones who have considerable pride in the farm and want to pass it on to someone who will take care of it and be equally as proud.[2] This hypothesis is partially validated indirectly in that a greater percentage of the operating respondents held this objective than did the non-operating respondent

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[1]Timmons, Social and Economic Aspects of the Devolution of Agricultural Land through Descent, Will, and Gift, op. cit., p. 143.

[2]For a more complete development of this hypothesis, see Max Meyers. Keeping Your Farm in the Family. South Dakota Agri. Exp. Sta. Bul. 398. February 1950. p. 3.

landowners. Those operating the farm and in constant contact with it day after day may be expected to have more interest in what happens to the farm than a non-operating owner who may only be interested in the land from an investment viewpoint.

The degree to which the objective of keeping the farm in the family was possessed appears to be associated with the retirement status of the respondents. Sixty-three per cent of those who had made retirement plans had this objective, as contrasted to only 44 per cent of the respondents who did not plan to retire. This difference, which is significant at the five per cent level using a single tail test, may be due to the uncertainty which confronts the children. This uncertainty of when they might get a chance to operate the farm may result in the children losing interest in the home place and cause them to seek opportunities elsewhere. Thus, when there are no children to take over the place the respondent decides against keeping the farm in the family.

The existence of a potential operating heir tends to influence the respondents' decision about maintaining the farm in the family. Only four of the 20 respondents without children, as compared to 44 out of 74 respondents with children indicated the possession of this objective. This highly significant difference[1] may be due to the fact that those with-

[1]The difference between the two groups is significant at the one per cent level.

out children would not be expected to have the desire of keeping the farm in the family as often as those respondent landowners with children. Landowners without children could conceivably transfer the farm to a close relative. The four respondents without children who had the objective failed to achieve it for the obvious reason that they had no children; therefore it would appear that very few of the respondents would see fit to transfer their farm to a relative more distant than their own children.

The sex of the potential operating heir also seemed to be a conditioning element as to whether or not the respondent wanted to keep the farm in the family. Seventy-two per cent of the respondents with all male children mentioned this objective as compared to only 40 per cent of the respondents with all female children.[1] However, little correlation was found between the sex of the children and the degree that the farm family succeeded in achieving this goal. Fifty per cent of the respondents with no male children who wanted to keep the farm in the family thought they would be able to do so, whereas 57 per cent of those with only male children believed they would achieve the goal.[2] Some of the methods this group

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[1]This difference is significant at the two per cent level using a one tail test.

[2]The difference between these two groups is not significant.

used in achieving the objective will be discussed in a subsequent section.

The attitude of the past generation also appeared to have some influence in determining whether or not the respondents decided to keep the farm in the family. The respondents had this objective in 61 per cent of the cases where the deceased relatives were believed to possess the objective, and in only 38 per cent of the cases where the relatives had not had it.[1] Even though the respondents gave the answers for both groups, it seems reasonable to assume that the respondents would be influenced by the beliefs and attitudes of their parents to some extent.

On the other hand, the deceased relatives held the objective of keeping the farm in the family less frequently than did the respondents. Only 38 per cent, or 18 out of 47 relatives, had possessed this goal, compared to 51 per cent, or 48 out of 94 respondents (Table 17). This insignificant difference may be due to the fact that the relatives were older (Table 5).[2] Some landowners on reaching the age of retirement move to town and may lose interest in keeping the

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[1]The difference is significant at the five per cent level using a single tail test.

[2]The deceased group was found to be about 18 years older than the respondents on the average.

farm in the family because they are no longer active in the operation of the farm. The operating respondents were found to hold this objective more often than their non-operating counterparts and the same may well have held true for their deceased parents. Furthermore, since most of the children of the deceased group were mature the relatives had a greater opportunity in discovering that none of their children wanted to farm.

The respondents and relatives who had transfer plans seemed to possess the objective of keeping the farm in the family more often than those without plans. Fifty-six per cent of the respondents and 48 per cent of the deceased group with plans possessed the objective, compared to 42 per cent of the respondents and 31 per cent of the relatives without plans. As mentioned in a previous section, this relationship may be an indication that the act of formulating a plan makes the landowner more fully aware of his farm transfer objectives. The process of transfer planning also made for a higher degree of achievement. Fifty-four per cent of the respondents and 90 per cent of the relatives with transfer plans were believed to have achieved the goal, compared to 31 per cent of the respondent landowners and 87 per cent of the deceased relatives without plans. The act of making a transfer plan may tend to cause the landowner to think that he will be able to keep

the farm in the family even though it is the nature rather than the existence of a plan which is decisive in the final outcome.

When the objective of keeping the farm in the family was held, only 48 per cent of the respondents believed they would be able to achieve it with their present plan of distribution, whereas the relatives were thought to have achieved it in 89 per cent of the cases (Table 18). This difference[1] may be due to the existence of a larger number of potential operating heirs. The relatives had over twice as many children on the average as the respondents, and the presence of an heir who is willing to take over the home place tends to assure a higher degree of achievement.

In summary, it appears that the landowner tends to give a positive answer to the question raised at the beginning of this section when the following conditions are satisfied: the farm family includes a potential operating male heir who is interested and desires to take over the farm; the heir is given the chance of taking over the farm by virtue of a retirement and a transfer plan; and the deceased relative has possessed and achieved the objective. These same factors also tend to be decisive in determining the rate of achievement.

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[1]This difference between the two groups is significant at the one per cent level.

Reasons for discontinuity of ownership

Although the factors mentioned above may be satisfied, the landowner may still not realize this objective. Some farms do not stay in the family, contrary to the wishes of the owner. A study made some years ago pointed out that "Of all the farm families in Iowa only 160 were found that had owned the same farm for 100 years."[1] Table 29 indicates the generations of farm ownership by the respondents and their ancestors according to transfer plan. For a majority of the cases, the respondents were the first generation to own the land. In only one case out of five had the farm land been in the same family for more than two generations. As expected, the desire to keep the farm in the family varied directly with the number of generations the land had stayed in the family. Only 44 per cent of the first generation compared to 100 per cent of the fourth generation respondents possessed the objective of maintaining continuity of ownership in the family.

The length of time the farm had been in the family tended to be associated with the planning process. Fifty-four per cent of the respondents with plans were the first generation on the farm, contrasted to 68 per cent of the respondents without plans (Table 29). The farms of 46 per cent of the

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[1]I. W. Arthur. A Century of Farming. Iowa Farm Science. Vol. 2, No. 4. October 1947. p. 12.

Table 29. Generations of farm ownership by respondents, according to plan, number and percentage

Duration of ownership	All cases		Wanted to keep farm in family	With plans		Without plans	
	Number	Per cent	Per cent	Number	Per cent	Number	Per cent
Land owned by fourth generation	2	2.1	100.0	2	3.2	0	0
Land owned by third generation	17	18.1	64.7	11	17.5	6	19.4
Land owned by second generation	20	21.3	55.0	16	25.4	4	12.9
Land owned by first generation	55	58.5	43.6	34	53.9	21	67.7
Total	94	100.0	48.0	63	100.0	31	100.0

planning respondents had stayed in the family for more than one generation, whereas this was the case with only 32 per cent of the respondents with no plans. This difference which is not significant, supports the hypothesis that certain legal arrangements are a necessary element of a successful transfer of the farm within the family. According to Professor Arthur, the reduction of such an agreement into legal terms (there are other essential steps) increases the chances that the farm will remain in the family.[1] This idea combined with the evidence presented in a previous section that landowners tend to make a plan more often when their parents also make a plan helps to explain why those farm owning families who make plans have a longer ownership experience.

The farm may be transferred out of the family because one of the heirs assumes an excessive debt burden in buying the land. Perhaps none of the heirs possesses sufficient capital to buy out the other heirs or the heir is unwilling to pay the price that other heirs believe they should have. Part of the real estate may have to be sold to pay the debts of the deceased and the costs of estate settlement. According to the ex post information, real estate was sold to non-family members in eight cases as the result of the transfer

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[1] Ibid., p. 13.

process. In three instances, land was sold out of the family during the estate settlement in order to pay estate settlement costs and to pay the debts of the deceased which had been incurred before death. In another case, the children were unwilling to assume the debt necessary to purchase the share of the other heirs. They were unable to work out a settlement, so the farm was sold to a neighbor. In two other situations, no heirs wanted the property at the appraised price. In the other two cases, the heir who had purchased the shares of the other heirs in the estate settlement, later lost the farm because the debt burden assumed was more than the farm could carry.

In the process of settling the estate, the land may be sold out of the family because the heirs-at-law are not aware of the deceased's previous desires about maintaining ownership in the family, or it may be simpler for the administrator of the estate to sell the farm to an outsider than to work out disagreements among the heirs. Six instances where serious disagreement among heirs arose during estate settlement were found in the ex post cases. In four of these cases the friction developed over which heirs were to receive certain property as their share, and in the remaining two instances arguments among heirs arose over what the purchase price was to be when the heir took over some of the property.

Some evidence that friction among the heirs could result in the farm being sold out of the family was found in the ex ante cases. Only 13 of the respondents with plans had taken steps to minimize disagreement among their heirs. Six of the respondents who were not satisfied with intestate distribution thought one of the heirs should buy the interest of other heirs in the settlement of the estate. Three of these respondents wanted to keep the farm in the family, two wanted to maintain the farm business as an economic unit and one desired to prevent friction. However, none of these six respondents had made plans as to which specific heir should purchase the farm and under what terms. One-third of these respondents thought the other heirs would be willing to help out with flexible terms, while the other four thought the heir would have a debt load beyond his ability to pay. All of these respondents intended to make a plan; however, at the time of interview they had no idea of the methods which they could use to make it possible for them to keep the farm in the family.

The farm may not stay in the family because there are no potential operating heirs. Very little empirical data were obtained regarding this hypothesis. One retired respondent was in the process of selling his farm, having given a purchase contract to a non-relative. His only child, a daughter, had married a school teacher and was living in another state.

Five of the respondents who were satisfied with intestate division thought that no heir should buy out the other heirs in the estate settlement. When asked to give the reason for this viewpoint, three mentioned that none of their heirs wanted to farm. In one case there were no male children and in the other two instances the children had gone into other occupations. Uncertainty of expectations on the part of the potential operating heir could have been a factor in one of these situations. The respondent was going to retire on his farm and the son had decided to become a machinist. No indication was obtained in this case as to whether the child would have entered the farming occupation if the opportunity had presented itself.

Even though actual cases of where the farm was sold out of the family were infrequently found in this study, the hypothetical reasons appear to exist and pose a threat to those landowners who desire to maintain continuity of ownership within the farm family.

How to keep the farm in the family

Some evidence has been presented that landowners, even though they desire to transfer their farm to succeeding generations, may not be able to do so. Such landowners may incorporate into the overall transfer plan provisions which will enable a specific child to acquire the farm either during

the settlement of the estate or before the death of the owner. In order to minimize the possibility of losing the farm if economic conditions change, the agreement may include a flexible financial agreement.

Three of the respondents had made plans for a certain child to buy out the other heirs in the settlement of the estate; however, only one plan included flexible provisions. In this case, the farm was to be appraised by three impartial appraisers. One of the appraisers was to be appointed by the purchasing heir, another one by the selling heirs, and then these two appraisers were to appoint a third. This impartial appraisal procedure was designed so that the heir would not be forced to pay an inflated price for the land, and to minimize the possibility of the heirs arguing over the purchase price. This is often the result when the other heirs do not know the true value of the farm.[1] Also in times of inflation the market price of land is often greater than the true productive value. As a further precaution against burdening the heir with an excessive debt, the payments on the principal were to stop in event the operating heir became financially embarrassed. In order to protect the interests

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[1]Even when a son bargains privately with his brothers and sisters he may pay as much, if not more, than the market price because the heirs may tend to overvalue, for sentimental reasons, the home farm.

of the other heirs in this credit plan, the other heirs were to hold the mortgage with a three per cent interest rate. The plan gave the heir 15 years to pay with provision for a five-year extension.

The above plan started out as a father-son agreement. At the time of interview the son was operating the entire farm under a partnership arrangement. The respondent had given this son one-third of the income from the livestock enterprises until the son had enough to buy one-half of the livestock and equipment. In return the son had provided his labor. In this situation, there was no apparent conflict with the objective of equitable treatment, for the respondent had sent the other four children to college or nursing school.

In the above mentioned case the problem of keeping the farm in the family was simplified in that only one child wanted to farm. Another respondent, faced with different circumstances, used the following plan in his attempt to maintain continuity of ownership within the family. This respondent had two daughters, both married. Since neither of his sons-in-law cared about farming (in fact they were well established in another occupation) the respondent was transferring the farm land to the daughter with his only grandson. The plan included a provision making it impossible for his daughter to sell the farm until his grandson reached the age of 21. By then the respondent had hopes that the grandson would want

to farm and this was one way of assuring him of an opportunity of doing so. In order to minimize conflict with the equitable treatment objective, he planned to give a city property to the other daughter. This respondent was one of the two landowners interviewed who had lost a farm received from their parents' estate.

Fifteen of the ex post cases had made an inter vivos transfer to their children. In five of these instances the transaction was made at less than market price. When asked to explain this reduction in price, four replied that this practice was followed in order to keep the farm in the family. Since this procedure is designed as assurance that the operating heir will not be burdened with an excessive debt, it is discussed in the section devoted to that objective. However, brief mention of this practice is made at this time because the motive for such a measure in a majority of the cases was that of keeping the farm in the family.

Uncertainty of expectations on the part of the children who want to farm may be reduced by an early and open discussion of the plan with the entire family. Free discussion may also mitigate the possibility of discord among the heirs since they are more aware of the parents' strong feelings and desires about keeping the farm in the family. A majority of those respondents who had taken steps to prevent disagreement and friction among the family had followed this advice.

In order that more farm families become acquainted with these success elements of the transfer process, with their use and possible results in regard to conflicting objectives, all media of communication should be utilized. Most all farm communities have access to a local radio station. Some farm organization may well sponsor a series of radio programs to disseminate these ideas of achievement of this and other objectives of the intra-family farm transfer process.

Minimization of Inter-Generation Farm Transfer Costs

The costs of transferring farm property between generations of farm families are incurred regardless of when the transfer takes place. However, for the purposes of this study, the empirical data obtained were limited to the costs involved when the transfer takes place at death. Such costs include medical and funeral expenses of the deceased, administrative expenses, attorney fees, state inheritance taxes, federal estate taxes and court costs. All of these costs are claims against the estate of the deceased and must be paid in the settlement of the decedent's estate.

Importance of minimizing transfer costs as an objective

This objective of minimizing transfer costs was considered by the respondent landowners to be as important as keeping the farm in the family (Table 19). However, in only

one case was the goal of keeping transfer costs to a minimum rated as first in importance, whereas five respondents considered keeping the farm in the family as their most important objective. Nevertheless, only 30 per cent of the landowners rated this goal as either first, second, or third in importance.

Forty-two per cent, or 39 of 94, of the respondents had this objective compared to only 13 per cent, or six of 47, of the deceased relatives (Table 17). This significant difference[1] may be due to the lower net worth of the deceased group[2] and increasing concern over estate settlement cost, especially death taxes, on the part of the respondents. Death taxes are progressive; therefore it is logical to expect that concern over the payment of such taxes should increase as the net worth of the estate increases.

The respondents and relatives with plans desired to minimize costs to a greater extent than those without plans. Forty-six per cent of the respondents who had plans wanted to minimize transfer costs, compared to only 32 per cent of those without plans (Table 15). Only eight per cent of the relatives without plans were believed to possess this objective, con-

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[1]This difference was found to be significant at the one per cent level.

[2]Only two members of the deceased group paid estate taxes.

trasted to 19 per cent of the deceased group with plans (Table 16). This difference is not enough to be significant; however, as was the case with other objectives, the process of making a plan may cause the landowners to be more aware of their transfer objectives.

A greater proportion of the deceased group was believed to have achieved this objective than of the respondent group. Four out of six, or 67 per cent, of the relatives were thought to have achieved the objective of minimizing costs compared to 15 out of 39 per cent, of the respondent landowners (Table 18). The same relationship was found to prevail for the groups who had plans and those who had no plans, those with plans having the highest per cent of achievement. In the case of the respondents, 45 per cent of those with plans thought they would be able to minimize costs with present plans, compared to only 20 per cent of those without plans; while 75 per cent of the relatives who died testate were believed to have achieved this objective, contrasted to 50 per cent who died without plans. No tests of significance were computed since some cells contained less than 5 cases (the required minimum number for chi-square tests). If a significant difference does exist it may be due to the belief that a transfer plan results in lower estate settlement costs; however, little evidence was found supporting this opinion. In the subsequent analysis, data are presented showing little difference in the settlement expense,

comparing estates in which there were wills with those in which there were none.

Kinds of estate settlement costs

The charges of the last sickness and funeral of the deceased are paid as soon as there are sufficient means over and above the costs of administration.[1] These costs are only indirect costs of transferring property; however, they do affect the residual amount of property which is transferred at death in that they must be paid out of the funds possessed by the executor or administrator. Data concerning medical and funeral expenses were obtained from the probate records of the second group of deceased relatives. Some of the probate records did not list any medical and funeral expenses;[2] therefore data were obtained on a smaller number of cases than the number for which data were obtained on other kinds of costs.

Except for death taxes the average cost of the last sickness and funeral of the deceased was found to be larger than any of the other expenses of estate settlement. For the 52 cases reported the average medical and funeral expense was $702, ranging from $102 to $2123 (Table 30). The average dol-

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[1]Code of Iowa, 1954: 635.65.

[2]In these cases the heirs may have paid such expenses and therefore no claim against the estate was presented to the administrator.

Table 30. Medical and funeral expenses of intestate and testate cases by gross value of estate, dollars

Gross value of estate	Intestate				Testate				All cases			
	All cases	Average	Range	Average per cent of gross value[a]	All cases	Average	Range	Average per cent of gross value[a]	All cases	Average	Range	Average per cent of gross value[a]
	Number	Dollars	Dollars		Number	Dollars	Dollars		Number	Dollars	Dollars	
Below $20,000	19	597	102-1050	8.04	13	609	302-1045	5.56	32	602	102-1050	7.04
20,000 to 39,999	11	705	130-1729	2.52	2	984	575-1392	3.06	13	748	130-1729	2.61
40,000 to 59,999	4	974	959-995	2.20	1	806	-	1.73	5	940	806-995	2.11
60,000 and above	0	0	0	0	2	1402	681-2123	1.51	2	1402	681-2123	1.51
All groups	34	677	102-1729	5.57	18	749	302-2123	4.62	52	702	102-2123	5.24

[a]The information in these columns was found by calculating an average of the percentages for individual cases.

lar amount increased from a low of $602 for estates with a gross value of less than $20,000 to a high of $1402 in those estates valued above $60,000. The average proportion of the gross estate used to meet these expenses ran as high as 7.04 per cent for the estates under $20,000 to 1.51 per cent for estates with a gross value of $60,000 and above.

On an individual basis the financial burden of this expense appeared to fall on the estates of small gross value. The highest percentage of gross value was 32.06 where the medical and funeral expenses were $318 on an estate with a gross value of $992, and the lowest was 0.75 where the expenses on an estate worth $90,749 were $681. Thus, this expense tends to fall on those families with the least ability to pay.

These data would seem to indicate a conflict in the inheritance process. One of the major arguments for our inheritance system is that it provides the means whereby a person can given his dependents security after his death. In cases where the estate is small the problem of providing security for dependents is more difficult than it is in the larger estates. However, social standards which tend to dictate the kind of funeral that can be held without disgrace often overlook the family's ability to pay.

The average medical and funeral expense was higher for the testate cases; however, the difference is not significant.

The 18 testate cases reported an average of $749 compared to $677 for the 34 intestate cases (Table 30).

The administrative expenses of settling the estate are incurred in payment for the services of the executor or administrator. After the death of the deceased, the executor or administrator becomes the estate manager in the estate settlement.[1] If the deceased person fails to select an executor, the courts are given the power to appoint an administrator who takes charge of the decedent's property.[2]

Oftentimes the fees are waived by the executors and administrators, especially if they are close relatives or beneficiaries of the estate. The fees were waived entirely by over one-half of the administrators and executors of the estates of the second group of deceased relatives. Out of the 63 cases reported, only 33 cases paid this expense (Table 31). It would appear likely that in some of the other cases the fees were waived in part; however, empirical data were obtained only in those cases where they were waived completely.

These fees were paid in 25 of the 38 intestate cases as compared to only eight of the 25 testate cases. This highly

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[1]See Timmons and O'Bryne, op. cit., p. 169 for a discussion of the services rendered by the executor or administrator.

[2]Code of Iowa 1954: 633.12 and 633.39.

Table 31. Administrative expenses of intestate and testate cases by gross value of estate, dollars

Gross value of estate	Intestate					Testate				
	All cases	Cases that paid expense	Average[a] costs	Range	Average per cent of gross value	All cases	Cases that paid expense	Average[a] costs	Range	Average per cent of gross value
	Number	Number	Dollars	Dollars		Number	Number	Dollars	Dollars	
Below $20,000	23	15	152	25-290	2.42	18	4	231	83-373	2.31
20,000 to 39,999	11	6	294	50-542	1.11	3	2	206	100-311	0.75
40,000 to 59,999	4	4	416	133-831	0.98	2	0	0	0	0
60,000 and above	0	0	0	0	0	2	2	699	648-750	0.76
All groups	38	25*	228	25-831	1.88	25	8*	342	83-750	1.53

*Significant at the one per cent level.

[a]This is an average of the cases that paid the expense.

Table 31. (Continued)

Gross value of estate	Total cases				
	All cases	Cases that paid expense	Average[a] costs	Range	Average per cent of gross value
	Number	Number	Dollars	Dollars	
Below $20,000	41	19	168	25-373	2.40
20,000 to 39,999	14	8	272	50-542	1.02
40,000 to 59,999	6	4	416	133-831	0.98
60,000 and above	2	2	699	648-750	0.76
All groups	63	33	256	25-831	1.79

significant difference[1] may be attributable to the fact that the administrators appointed by the courts may be more likely to demand payment for services rendered than a person named by the testate decedents. Perhaps the executors in the latter case assume their duties with more personal concern; on the other hand, the persons selected by the courts may be more likely to possess a professional viewpoint which is primarily motivated by the monetary return involved.

For the 33 cases in which fees were paid the average cost was $256, ranging from $25 to $831 (Table 31). The average dollar amount increased from a low of $168 for estates with a gross value of less than $20,000, to a high of $699 for those estates valued at $60,000 and above. The average costs tended to become larger as the size or gross value of the estates increased. This relationship was expected, as such costs are determined by the size as well as the amount of work involved in the settlement of the estates.[2]

The average percentage of the gross value of the estate used to meet these expenses ran as high as 2.4 for estates in the below $20,000 class of gross value, to 0.76 for those

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[1]This difference was found to be significant at the one per cent level.

[2]See Iowa Code 1954: 638.23 and 638.25 for the procedure and limitations exercised as the courts determine a reasonable fee for all ordinary and extraordinary services involved in the settlement of estates.

estates valued at $60,000 and above. This average for all classes of gross value was found to be 1.79 per cent and tended to decrease as the gross value of the estate increased. On an individual basis, the highest percentage of gross value was 7.56, compared to a low of 0.17.

The average administrative expense paid in the testate cases was $114 higher than in the intestate cases.[1] The executor may be called on to perform extraordinary services to a greater extent under the provisions of a will than when the decedent dies intestate.

The executor or administrator in the performance of his function may need the services of an attorney to assist him with the legalities encountered. The fee for this service is an obligation of the estate and is usually equal to the amount paid to the executor or administrator;[2] however, in certain cases where extra services[3] are required they may exceed the administrative expense. In the cases that reported paying both kinds of costs, only five instances were found where the fee paid the attorney was more than that paid to the administrator. This fact could be due to the executor or administra-

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[1]This difference is significant at the 20 per cent level.

[2]Code of Iowa, 1954: 638.24 and 638.25.

[3]Such services may be required in clearing title to real estate or in connection with tax matters.

tor having waived a portion of his fee; however, the records indicated that extra legal services were used in settling the estates. In one of these cases, friction between heirs apparently caused the difference between attorney fees and administrative costs. The case was settled out of court; nevertheless, extra legal services were performed in negotiating the settlement.

The average attorney fee was found to be approximately the same as the average administrative expense. For the 63 cases reported, the average attorney fee was $233, ranging from $11 to $1077 (Table 32). The average dollar amount increased from $146 for estates with a gross value of less than $20,000, to a high of $914 for those estates valued at $60,000 and above. The average proportion of the gross estate used to pay this expense ran as high as 1.96 per cent for the smaller estates, to 1.00 per cent for estates with a gross value of $60,000 or more.

On an individual basis, the lowest average percentage of gross value was 0.07 where the fee was $11 on an estate worth $16,575 and the highest percentage was 8.57 where the attorney fee was $200 on an estate valued at $2,333. The range for estates under $20,000 in gross value was $389, increasing to $535 and $631 for the next two classes of gross value respectively, and then falling to $327 for the estates in the $60,000 and above class. Thus, the range in attorney fees appeared to be fairly constant.

Table 32. Attorney fees of intestate and testate cases by gross value of estate, dollars

Gross value of estate	Intestate				Testate				Total cases			
	All cases	Average fees	Range	Average per cent of gross value	All cases	Average fees	Range	Average per cent of gross value	All cases	Average fees	Range	Average per cent of gross value
	Number	Dollars	Dollars		Number	Dollars	Dollars		Number	Dollars	Dollars	
Below $20,000	23	137	25-290	2.42	18	157	11-400	1.37	41	146	11-400	1.96
20,000 to 39,000	11	310	50-585	1.08	3	235	120-311	0.85	14	294	50-585	1.03
40,000 to 59,999	4	488	200-831	1.12	2	393	285-500	0.86	6	456	200-831	1.03
60,000 and above	0	0	0	0	2	914	750-1077	1.00	2	914	750-1077	1.00
All groups	38	224	25-831	1.90	25	246	11-1077	1.24	63	233	11-1077	1.64

The average attorney fee for testate cases was $246 as compared to $224 in the intestate estates (Table 32). Although this difference is not significant it may be considered as additional evidence that the attorney may be required to perform extra services in order to follow the requests of the testator to a greater extent than if he had died intestate. On the other hand, higher attorney fees may be a function of the size of estate. The testate relatives had larger estates on the average than did the relatives who died intestate (Table 10). This relationship, higher charges for the testate than for intestate cases, was found to exist for the administrative expenses as well as the court costs.

Court costs are paid to the clerk of the probate court for the various services he performs in the settlement of the estate.[1] The costs of making certain appraisals are also considered as costs of probate.[2] Most estates must be appraised for tax purposes[3] and the personal property inventoried by the executor or administrator must be valued by three appraisers.[4]

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[1]See Code of Iowa, 1954: Chapter 632 for a discussion of the probate powers of county clerk, also Timmons and O'Bryne, op. cit., p. 164-170.

[2]Code of Iowa, 1954: 450.25.

[3] Ibid., 450.24.

[4]Ibid., 635.5.

For the 73 cases of the second group of deceased relatives, the average court costs were $28, ranging from $5 to $101 (Table 33). The average dollar amount increased from a low of $23 for estates with a gross value of less than $20,000, to a high of $60 for those estates valued at $60,000 and above. Thus, the average court costs appeared to be dependent upon the size of the deceased person's estate. Within each class of gross value, very little variation was found in the average costs paid. The smaller estates had a range of $74, increasing to $90 for the next class, and then decreasing to $79 and $30 for the next two classes respectively. The range in the $60,000 and above class would no doubt increase with a larger sample; the range of $30 is the result of only two observations (Table 33). The slight variation that was found may be due to the costs of making appraisals.

The average proportion of gross estate used to pay the court costs was 0.41 per cent for estates of less than $20,000, and decreased to 0.07 for the estates of $60,000 and above (Table 33). On an individual basis, the highest percentage of gross value was 2.82 where the court costs were $28 for an estate valued at $992, and the lowest was 0.02 where the costs were $6 for an estate with a gross value of $39,481. The average percentage for all cases was only 0.32; thus court costs made up only a small segment of the inter-generation farm transfer costs.

Table 33. Court costs of intestate and testate cases by gross value of estate, dollars

Gross value of estate	Intestate				Testate				All cases			
	All cases	Average costs	Range	Average percentage of gross value	All cases	Average costs	Range	Average percentage of gross value	All cases	Average costs	Range	Average percentage of gross value
	Number	Dollars	Dollars		Number	Dollars	Dollars		Number	Dollars	Dollars	
Below $20,000	30	19	5-79	0.46	21	29	10-76	0.34	51	23	5-79	0.41
20,000 to 39,999	11	31	6-96	0.11	3	29	13-41	0.10	14	31	6-96	0.11
40,000 to 59,000	4	49	22-101	0.11	2	67	36-98	0.15	6	55	22-101	0.12
60,000 and above	0	0	0	0	2	60	45-75	0.07	2	60	45-75	0.07
All groups	45	25*	5-101	0.34	28	34*	10-98	0.28	73	28	5-101	0.32

*Significant at the ten per cent level.

The average court costs of intestate cases were found to be $25 compared to $34 dollars for the testate cases. This difference was found to be slightly significant (ten per cent level) and in view of the previous evidence presented, may be due to the higher gross value of the testate estates. However, these findings are far from being conclusive and further studies may reveal that higher costs of settling testate estates may be due to the difficulties encountered in carrying out the testator's requests contained in the will. Also it may be necessary for the clerk to make and file more reports and legal documents in a testate case.

Every executor or administrator must give a bond and take an oath before entering the discharge of his duties.[1] The value of the bond posted is based on the amount of personal property inventoried and varies with the type of bond. The value of a personal surety bond must be equal to twice the amount of personal property, and a corporate surety bond must be equal to one and one-fourth the value of personal property. No bond premium is paid for a personal surety; however, there is a cost involved when a surety bond is purchased from a bonding company. Premium rates vary with the value of the bond. For example, the premium on a $10,000 bond would cost the estate $46 annually. The rate per thousand decreases as

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[1]Ibid., 633.43.

the value of the bond increases. In this example of a $10,000 bond the rate on the first $3,000 is $7 per thousand; for the next $2,000 the rate falls to $5 per thousand, and for the remaining $5,000 the rate is $3 per thousand.[1] However, the testator may exempt the executor from the necessity of giving a bond and thereby avoid this cost.[2]

In the 73 cases reported, 53 bonds were required since 20 of the testate group made provisions exempting the executor from the bond requirement. Thus, the executor was exempt in five out of every seventh testate case. Of the 53 cases in which bonds were required, only 13 per cent reported payments for bond premiums. The remaining 87 per cent had used a personal surety bond.

The average cost for bond premiums in the seven cases reported buying a bond was $64.[3] The average proportion of gross value used to pay this expense was 0.35 per cent. This percentage is approximately equal to that paid for court costs. The lowest percentage of gross value was 0.05 where the premium was $46 on an estate with a gross value of $90,749, and

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[1]This information was obtained from the probate clerk of Jefferson county.

[2]Code of Iowa, 1954: 635.51.

[3]The average bond cost was found to be slightly higher for the intestate cases compared to the testate group; however no tests of significance were computed because of the limited number of observations.

the highest was 1.01 where the bond costs were $10 on a gross estate of $992. Therefore on an individual basis bond costs were comparatively low in relation to gross value of the estate.

Two types of death taxes are included in the estate settlement costs. In the past, landowners have seldom been bothered with estate tax problems; however, with higher tax rates and higher land values the landowners can no longer ignore tax considerations in the planning for intra-family distribution of farm property.

The federal government levies an estate tax. This tax applies only if the gross estate less certain deductions is more than $60,000. The allowable deductions include funeral expenses, debts due at death, expenses of administering the estate, and the amount of money or property left to charitable, religious and educational institutions. If there is a surviving spouse, there is a marital deduction which may amount to one-half of the gross estate less certain other deductions.[1]

Only two of the 66 cases studied had an estate with a gross value above $60,000, and federal estate taxes were paid in both cases. The average estate tax paid was $2422. The

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[1]See Internal Revenue Code, 1954. Sections 2051, 2052, 2053, 2054, 2055, and 2056 for definition of taxable estate, exemptions, deduction, and allowance for marital deduction.

average percentage of gross value was only 2.59; however, on an individual basis this percentage ranged from 0.23 to 4.95 per cent. In one case the tax was $211 compared to $4633 for the other. These two cases were approximately equal in gross value, both being slightly in excess of $90,000. Both landowners died testate leaving a life estate to a surviving spouse. In one case the spouse was given the power of appointment, but the estate tax amounted to $4633 because when the estate was settled (1951) such a provision failed to qualify for the marital deduction.[1] In the other case the spouse was not given the power of appointment; however, she refused to take under the will preferring to take her dower rights in fee simple. Therefore the estate was able to take partial advantage of the marital deduction and the resulting tax paid was only $211.

None of the intestate cases studied paid a federal estate tax, so no comparisons can be made between intestate and testate cases. Further studies may reveal that testate cases with a surviving spouse pay lower estate taxes. This opinion is based on the fact that a testate distribution may tend to make fuller use of the marital deduction than a distribution as provided by law.

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[2]Under the present law a life estate with the power of appointment qualifies for the marital deduction.

The other death tax is the inheritance tax and is levied upon the decedent's estate by the State of Iowa. Unlike the federal estate tax, which applies to the value of the estate as a whole, the inheritance tax is imposed on each of the heirs receiving a taxable inheritance. Before the estate is distributed the estate manager deducts the tax from the share of each heir. The tax rates as well as the amount of exemptions vary with the degree of kinship between the heirs and the decedent.[1]

An inheritance tax was paid in ten of the 66 estates studied (Table 34). The percentage of all cases paying the tax increased as the gross value of the estate increased. Only 12 per cent of the estates with a gross value below $20,000 paid the tax; for the next two classes of gross value the percentage rose to 14 and 17 per cent respectively, and for the estates with a gross value of $60,000 and over, 100 per cent of the cases paid the tax.

The average tax paid for the ten cases paying the tax was $894 and the average percentage of gross value was 4.72 per cent (Table 34). On an individual basis the tax paid ranged from a high of $4055 on an estate worth $41,797 with an average percentage of gross value of 9.70, to a low of $43 on a

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[1]See Code of Iowa, 1954. Chapter 450 for provisions of the Iowa inheritance tax legislation.

Table 34. State inheritance taxes paid by intestate and testate cases of deceased relatives II by gross value of the estate, dollars

Gross value of estate	Intestate (42)					Testate (24)				
	Paid tax	Percentage of all cases	Average tax paid	Range	Average per cent of gross value	Paid tax	Percentage of all cases	Average tax paid	Range	Average per cent of gross value
	Number	Per cent	Dollars	Dollars	Per cent	Number	Per cent	Dollars	Dollars	Per cent
Below $20,000	2	7.4	608	239-977	6.48	3	17.6	981	253-1752	7.80
20,000 to 39,999	2	18.2	66	43-89	0.24	0	0	0	0	0
40,000 to 59,999	1	25.0	4055	-	9.70	0	0	0	0	0
60,000 and over	0	0	0	0	0	2	100.0	296	235-356	0.32
All groups	5	11.9	1081	43-4055	4.63	5	20.8	707	235-1752	4.81

Table 34. (Continued)

Gross value of estate	All cases (66)				
	Paid tax	Percentage of all cases	Average tax paid	Range	Average per cent of gross value
	Number	Per cent	Dollars	Dollars	Per cent
Below $20,000	5	12.0	832	239-1752	7.27
20,000 to 39,999	2	14.3	66	43-89	0.24
40,000 to 59,999	1	16.7	4055	-	9.70
60,000 and over	2	100.0	296	235-356	0.32
All groups	10	15.2	894	43-4055	4.72

$21,605 estate with an average of 0.20 per cent of gross value. This variation was found to be due to the provision that tax rates and exemptions are dependent on the relationship of the heir to the deceased.

Limited observations restricted the analysis; however, on the basis of the empirical data obtained, a greater percentage of the testate cases paid the tax. Even though a greater proportion of the testate cases paid the tax, the intestate cases paid a higher average tax. The five intestate cases paid an average tax of $1081 compared to $707 for the testate cases. This difference apparently is due to the above mentioned case paying a $4055 tax. But for this one case, in which the relative died intestate and the entire estate went to nieces and nephews, the two groups would have about the same average tax. An increase in sample size may indicate that the testate cases had a lower average tax since a testator can gain full benefit of the exemptions.

In addition to the costs previously discussed there were "other costs" paid in the settlement of estates. Such costs as widow's allowances, abstract fees, and recording costs were reported by the estate manager and included as part of the expenses of estate settlement. These "other" costs were paid in only 14 of the 66 cases studied (Table 35); however, in some individual cases a considerable portion of the estate was used to defray such expenses.

Table 35. Other costs[a] paid by intestate and testate cases of deceased relatives II by gross value of estate, dollars

Gross value of estate	Intestate (42)					Testate (24)				
	Paid costs	Percentage of all cases	Average costs	Range	Average percentage of gross value	Paid costs	Percentage of all cases	Average costs	Range	Average percentage of gross value
	Number	Per cent	Dollars	Dollars	Per cent	Number	Per cent	Dollars	Dollars	Per cent
Below $20,000	5	18.5	555	103-900	12.73	2	11.8	660	600-720	5.72
20,000 to 39,999	4	36.4	544	75-1005	1.60	1	33.3	1000	-	2.77
40,000 to 59,999	1	25.0	1000	-	1.96	1	50.0	300	-	0.69
60,000 and above	0	0	0	0	0	0	0	0	0	0
All groups	10	23.8	595	75-1005	7.20	4	16.7	655	300-1000	3.73

[a]Other costs include widow's allowances, abstract fees and recording costs.

Table 35. (Continued)

Gross value of estate	All cases (66)				
	Paid costs	Percentage of all cases	Average costs	Range	Average percentage of gross value
	Number	Per cent	Dollars	Dollars	Per cent
Below $20,000	7	15.9	585	103-900	10.72
20,000 to 39,999	5	35.7	635	75-1005	1.83
40,000 to 59,999	2	33.3	650	300-1000	1.33
60,000 and above	0	0	0	0	0
All groups	14	21.2	612	75-1005	6.21

The average dollar amount was $612, ranging from $75 to $1005, and appeared to increase slightly with gross value. The average costs were $585 for the smallest estates, increasing to $635 and $650 for the next two classes, and no cases in the $60,000 and above class of gross value reported paying these costs.

For the 14 cases paying such costs, the average percentage of gross value was 6.21, but in the estates valued at less than $20,000 this percentage was found to be 10.72. Thus in the cases where this cost was reported, about ten cents of each dollar of gross value of the smaller estates went for this purpose. On an individual basis the highest average percentage of gross value was 42.3 per cent where the widow was granted an allowance of $420 from an estate valued at $992. The lowest such percentage found was 0.37 where the cost was $75 and the estate had a gross value of $20,417. The average amount and frequency of these costs were approximately the same for the intestate and testate groups.

Length of time to settle estates

The length of time required to settle estates may be considered an inter-generation farm transfer cost. The lapse of time between the death of the landowner and the final closing of the estate is not a direct financial burden; however, to the extent that administration is delayed, uncer-

tainty on the part of the heirs may develop. For instance, the operating heir may continue the farm operation even though his legal right to the farm has not been established; and to the extent that such uncertainty hampers production, a cost is involved.

The average length of time required to close the estates studied was 27 months, with 22 per cent being closed within one year, while 20 per cent required over two years (Table 36). In the remaining cases estate proceedings were closed within 12 to 23 months after death of a relative.

It took less time to close the larger estates in the group than the small ones. From a third to a half of the estates in the top three classes of gross value were closed within 12 months, whereas only 14 per cent of the estates valued at less than $20,000 were closed within this period of time (Table 36). This difference may be due to the fact that the larger estates are opened sooner, and there appeared to be fewer cases of delayed closing. In the larger estates, the heirs may be more anxious about having their inheritance rights established.

The intestate cases required a longer period of time for estate proceedings. It took an average of 31 months to close the intestate estates compared to 20.3 months for the testate cases. Only 15 per cent of the intestate cases were closed within a year while 32 per cent of the testate proceedings

Table 36. Length of time[a] required to close intestate and testate cases of deceased relatives II by gross value of estate, number and percentage

Length of time	Gross value of estate: Below $20,000		20,000 to 39,999		40,000 to 59,999		60,000 and above		All groups	
	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent	Number	Per cent
Intestate cases (46)										
Under 12 months	2	6.7	4	33.3	1	25.0	0	0	7	15.2
12 to 17 months	13	43.3	5	41.7	1	25.0	0	0	19	41.3
18 to 23 months	7	23.3	2	16.7	2	50.0	0	0	11	23.9
24 months and over	8	26.7	1	8.3	0	0	0	0	9	19.6
Testate cases (28)										
Under 12 months	5	23.8	1	33.3	2	100.0	1	50.0	9	32.1
12 to 17 months	10	47.6	0	0	0	0	0	0	10	35.7
18 to 23 months	2	9.5	1	33.3	0	0	0	0	3	10.7
24 months and over	4	19.1	1	33.3	0	0	1	50.0	6	21.5
All cases (74)										
Under 12 months	7	13.7	5	33.3	3	50.0	1	50.0	16	21.6
12 to 17 months	23	45.1	5	33.3	1	16.7	0	0	29	39.2
18 to 23 months	9	17.7	3	20.0	2	33.3	0	0	14	18.9
24 months and over	12	23.5	2	13.3	0	0	1	50.0	15	20.3

[a]Time between death of deceased relative and date of final report.

were terminated within this period (Table 36). This difference[1] may be due to the lower gross value of the intestate cases. The relatives with plans tended to have larger estates on the average (Table 10), thus the reasons mentioned above in connection to the size and length of time to close estates would apply here also in accounting for the difference in time required to close intestate and testate cases. On the other hand, this slightly significant difference may be due to the fact that an administrator may require a longer period of time in closing the estate since no testate provisions are available to guide him in making the distribution of property.

Total estate settlement costs

The total estate settlement cost will equal the summation of the individual kinds of costs paid in each case. However, for purposes of analysis, Table 37 does not present the cost of death taxes which was discussed in the previous section; all other costs are included.

The average total costs, excluding taxes, were $1328 for the 50 cases reporting all costs. This average ranged from $360 to $3698. The average dollar amount paid increased from a low of $1007 for estates with a gross value of less than

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[1]This difference is significant at the ten per cent level.

Table 37. Total estate settlement cost, exclusive of death taxes, of intestate and testate cases by gross value, dollars

Gross value of estate	Intestate				Testate				All cases			
	All cases	Average costs	Range	Average percentage of gross value	All cases	Average costs	Range	Average percentage of gross value	All cases	Average costs	Range	Average percentage of gross value
	Number	Dollars	Dollars	Per cent	Number	Dollars	Dollars	Per cent	Number	Dollars	Dollars	Per cent
Below $20,000	17	1086	360-1699	17.67	13	903	364-1876	8.33	30	1007	360-1876	13.62
20,000 to 39,999	11	1439	508-3549	5.02	2	2019	1238-2799	6.30	13	1528	508-3549	5.21
40,000 to 59,999	4	2177	1417-2726	4.90	1	1404	-	3.01	5	2022	1404-2726	4.52
60,000 and above	0	0	0	0	2	3098	2497-3698	3.36	2	3098	2497-3698	3.36
All groups	32	1344	360-3549	11.72	18	1298	364-3698	7.26	50	1328	360-3698	10.12

$20,000, to a high of $3098 for those estates valued at $60,000 and above. The average proportion of the gross estate used to pay these costs ran as high as 13.62 per cent for the small estates, to 3.36 per cent for estates with a gross value of $60,000 and over. The average percentage of gross value for all cases and groups was 10.12. Thus about 10 cents out of each dollar of gross value was used to pay the costs of estate settlement, exclusive of death taxes.

The average total cost for the testate cases was $1298 as contrasted to $1344 for the intestate cases.[1] The range in average costs for the two groups was found to be about the same (Table 37); however, the average percentage of gross value was 11.72 per cent for the intestate and 7.26 for the testate groups. This may be due to the limited number of observations in the larger estates.

Most of the variation found in the total costs appeared to be a function of the gross value of the estate. Nevertheless, some of the individual costs were found to vary because of factors not associated with the size of estates. For instance, a particular estate may have to pay a large doctor or hospital bill and the fees paid to the estate manager in certain cases may not be dependent on the value of the estate.

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[1]This difference was found to be insignificant.

However, these are random variables which may tend to lose their identity and effect when all cases are averaged together.

In the above analysis the death taxes were excluded from the total costs. Now, in order to evaluate the amount of variation in total costs resulting from these taxes, Table 38 presents all the total costs on the 50 cases which reported all costs.

The average total costs were $1603, and ranged from $360 to $8566. The average dollar amount paid increased from a low of $1146 for estates with a gross value of less than $20,000, to a high of $5815 for those estates valued at $60,000 and above. The average proportion of the gross estate used to pay the total settlement costs ran as high as 14.83 per cent for estates under $20,000, to 6.27 per cent for estates with a gross value of $60,000 and over. The average percentage of gross value for all cases and classes of gross value was 11.16 per cent. In other words, for each $100 of gross value, the total costs of settling the estate were $11.16.

A comparison of Tables 37 and 38 indicates the effect of death taxes on total estate settlement costs. The inclusion of death taxes caused the average costs to increase from $1328 to $1603 and the range increased almost $5000. As expected, the increase in average amount paid was much greater for the larger estates since the taxes are progressive and

Table 38. Total costs of the inter-generation farm transfer process of intestate and testate cases by gross value, dollars

Gross value of estate	Intestate				Testate				All cases			
	All cases	Average costs	Range	Average percentage of gross value	All cases	Average costs	Range	Average percentage of gross value	All cases	Average costs	Range	Average percentage of gross value
	Number	Dollars	Dollars	Per cent	Number	Dollars	Dollars	Per cent	Number	Dollars	Dollars	Per cent
Below $20,000	17	1159	360-2340	18.43	13	1129	364-3160	10.13	30	1146	360-3160	14.83
20,000 to 39,999	11	1450	508-3638	5.06	2	2019	1238-2799	6.30	13	1538	508-3638	5.25
40,000 to 59,999	4	3190	1417-6781	7.33	1	1404	-	3.01	5	2833	1404-6781	6.46
60,000 and above	0	0	0	0	2	5815	3064-8566	6.27	2	5815	3064-8566	6.27
All groups	32	1513	360-6781	12.45	18	1764	364-8566	8.88	50	1603	360-8566	11.16

the estate tax does not apply to estates below $60,000. This increase in average dollar amount paid was $139 for the small estates, only $10 for the next class of gross value, and for the estates valued from $40,000 to $59,999 the increase was $711, while in the last class the increase was about $2700.

An additional observation appears to be warranted upon further comparison of the two tables. Death taxes apparently have a greater effect on the costs of testate cases. Before taxes, the total average cost of the testate cases was $46 lower than the costs for intestate, but after taxes this relationship was reversed. The cost of testate cases was found to be $251 higher than the costs for an intestate distribution.[1] Most of this difference was found to be due to the federal estate tax and would be reduced if more of the intestate cases had fallen in the $60,000 and above class of gross value. This analysis appraising the effect of death taxes on total costs was limited by the small number of observations in the higher classes of gross value. An increase in sample size would present more conclusive findings in regard to the impact of such taxes.

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[1]The t value was 0.572. This difference was found to be insignificant. ($t_{10\ (50)} = 1.676$).

Comparison of total estate settlement costs of intestate and testate cases

The difference in costs that existed between intestate and testate cases was pointed out as each of the individual costs was discussed. However, in order to complete this analysis, the next two tables present a summary of the average transfer costs by type of cost and the individual kinds of cost expressed as a percentage of gross value.

Except for inheritance taxes and costs of bond premiums, the average transfer costs paid by the intestate group were lower (Table 39). As mentioned in a previous section the difference in inheritance taxes[1] was due to a single case in which the intestate decedent's property was transferred to distant relatives not eligible for the lower tax rate, for by testate provisions full benefit of the exemptions may be obtained. The bond costs for intestate cases may be higher because of the longer period of time required to close intestate cases (Table 36). The bonds are purchased on an annual basis and if the estate remains open for any length of time they must be renewed.

On the other hand, the testate cases were found to pay higher average transfer expenses for all the remaining indi-

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[1]No tests of significance were made because of limited observations.

Table 39. Summary of average transfer costs by type of cost of intestate and testate cases, number of cases and dollars

Type of cost	Intestate		Testate		Total	
	Cases reported Number	Average costs Dollars	Cases reported Number	Average costs Dollars	Cases reported Number	Average costs Dollars
Medical and funeral expenses	34	677	18	749	52	702
Administrative costs	25	228	8	342	33	256
Attorney fees	38	224*	25	246*	63	233
Court costs	45	25*	28	34*	73	28
Estate taxes	0	-	2	2422	2	2422
Inheritance taxes	5	1081	5	707	10	894
Bond costs	6	67	1	46	7	64
Other costs	10	595	4	655	14	612
Total costs[a]	32	1513	18	1764	50	1603

*Significant at the ten per cent level.

[a]Includes only the total costs of the cases where information on all costs was reported. Thus, the sum of the individual items does not equal the total costs because all the individual costs were not reported for each case.

vidual items. Higher administrative expenses, attorney fees, and court costs may result because of the difficulty in following the provisions contained in the will. The complexity of certain testate provisions may cause friction between heirs. This friction, due to a misinterpretation of said provisions, may make more legal work. Also, the various court actions and letters required in such cases may take more effort on the part of the probate clerk. No estate taxes were paid by the intestate group making a comparison with testate cases impossible. However, one may find that an intestate distribution does not minimize estate taxes to the same extent as a testate distribution because of failure to take full benefit of exemptions and deductions in many cases. The difference in medical and funeral expenses may be due to the limited number of intestate cases in the largest class of gross value (Table 30). "Other" costs were $60 higher for the testate than for intestate cases (Table 39). These costs included abstract and recording fees which are paid when property is sold, and an allowance for the surviving spouse. A larger number of observations may reveal that smaller estates are more likely to pay such an allowance because of the limited amount of resources. Also the smaller estates required a longer period of time to make the final distribution of property; therefore the surviving spouse in such cases may be more dependent on such grants for a livelihood.

With few exceptions, the average percentage of gross value was higher for the intestate than for the testate cases (Table 40). The exceptions are pointed out and the possible causes of them are discussed in this section.

The average proportion of gross value used to pay death taxes was higher for the testate group than for intestate cases. The average percentage over all groups of the former was 5.84 compared to 5.17 for the latter. Also in the below $20,000 gross value class this average percentage was found to be higher for the testate group. This difference in percentage of gross value used to pay death taxes might have been reduced and possibly reversed if the sample had included intestate cases paying the federal estate tax, and more cases paying inheritance taxes in the below $20,000 class.

The average percentage paid for medical and funeral expenses in the second class of gross value was 3.06 for testate and 2.52 per cent for the intestate group. This exception stems from a high average cost based on only two observations in the testate group. More cases must be studied before such findings present conclusive evidence. The higher average percentage paid for court costs in the estates valued from $40,000 to $59,999 was 0.15 per cent for testate cases, compared to 0.11 per cent for the intestate group. This difference does not appear to be due to the smaller estates in this class of gross value but may stem from higher costs based on limited observations.

Table 40. Summary of transfer costs expressed as a percentage of gross estate, intestate and testate cases, percentage

Gross value of estate	Medical and funeral expenses		Administrative expenses		Attorney fees		Court costs	
	Intestate	Testate	Intestate	Testate	Intestate	Testate	Intestate	Testate
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Below $20,000	8.04	5.56	2.42	2.31	2.42	1.37	0.46	0.34
20,000 to 39,999	2.52	3.06	1.11	0.75	1.08	0.85	0.11	0.10
40,000 to 59,999	2.20	1.73	0.98	-	1.12	0.86	0.11	0.15
60,000 and above	-	1.51	-	0.76	-	1.00	-	0.07
All groups	5.57	4.62	1.88	1.53	1.90	1.24	0.34	0.28

Table 40. (Continued)

Gross value of estate	Death taxes		Other costs[a]		Total costs	
	Intestate	Testate	Intestate	Testate	Intestate	Testate
	Per cent	Per cent	Per cent	Per cent	Per cent	Per cent
Below $20,000	6.48	7.80	10.80	5.72	18.43	10.13
20,000 to 39,999	1.51	-	1.27	2.77	5.06	6.30
40,000 to 59,999	9.70	-	1.96	0.69	7.33	3.01
60,000 and above	-	2.91	-	0.05	-	6.27
All groups	5.17	5.84	5.72	2.99	12.45	8.88

[a]Also includes bond cost.

The average percentage of gross value paid for "other" costs in testate cases also exceeded the intestate group in the second class of gross value. The percentage for testate cases was 2.77 per cent compared to 1.27 per cent for the intestate group. This represents a difference of a cent and one-half for each dollar of gross value. Again, the empirical data obtained were limited in that only one of the testate cases in this class of gross value paid "other" costs. The difference between total costs of the two groups in this same class of gross value is no doubt due to the variability in medical and funeral expenses, and other costs. The above analysis regarding the differences in average percentage of gross value paid for the individual cases between intestate and testate cases has been restricted by the limited number of cases reporting such costs. Additional studies should be undertaken in which this restriction is inoperative.

Estate settlement costs and the value of resources

The amount of the estate finally distributed to the heirs of the decedent is the amount of gross value which remains after the estate settlement costs have been paid. As indicated in Table 38 the average dollar amount of estate settlement costs for the second group of deceased relatives increased from $1146 for estates under $20,000, to $5815 for estates of $60,000 and above. The average percentage paid of the gross

estate did not vary with gross value. An average of almost 15 per cent of the gross value was required for settlement costs of the smaller estates, about five per cent for estates between $20,000 and 39,999, and a little over six per cent for the larger estates. The higher percentage on the smaller estates was due to the large medical and funeral expenses and other costs relative to the size of estate, and the upturn in this percentage for the larger estates is no doubt due to the higher tax burden imposed on such estates.

On an individual basis, the lowest percentage of gross estate required to pay the total transfer costs was 2.18 per cent where the total costs were $645 and the gross value was $29,654. The highest such percentage was 93.35 per cent where the total costs were $926 on an estate valued at $992. However, these are the extreme cases. The mean total transfer cost was found to be $1603 and the mean percentage of the estate used to pay all settlement costs was 11.16 per cent (Table 38). The difference found to exist between intestate and testate cases was discussed in a previous section.

Liquid funds or assets in the hands of the estate manager are used to pay the estate settlement costs. Such funds were inadequate to pay all costs in 32 per cent of the 50 cases studied. However, in 25 per cent of these cases there were some liquid assets owned in joint tenancy. The estate manager

is not in a position to use such funds[1] to pay settlement costs. The joint tenant may be willing to meet these costs especially in those cases where the joint tenant is a major heir. If no other resources of a liquid nature[2] are available, the personal property possessed by the decedent is the next asset used to pay the costs.[3] In 24 per cent of the estates studied some personal property would have had to be sold to pay costs of the estate. However, in only three instances would the value of personal property have been inadequate for this purpose. In two of these cases, the heirs paid the inheritance taxes out of their own pocket in order to keep the farm in the family and to protect the going concern. In the other case, the administrator secured permission from the probate court and sold the real estate. In two other cases[4] it was necessary for the administrator to sell real estate in order to pay the debts of the decedent.

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[1]Although such assets are inventoried for inheritance tax purposes, they are not turned over to the estate manager.

[2]Insurance proceeds are in the same category as joint assets, however none of the cases reported insurance payable either to the estate or heirs.

[3]See Code of Iowa, 1954: 635.7 in regard to personal property exempt from execution.

[4]These two estates did not report all costs and therefore were not considered in the above analysis. They were discussed in connection with the objective of keeping the farm in the family.

In a majority of the cases the value of liquid assets was more than adequate to pay transfer costs; however, personal property would have had to be sold in 24 per cent of the cases and in one case the real estate was sold to pay the costs of settling the estate. Thus, considerable evidence was found that the farm as a productive unit was frequently disrupted because the personal property of the deceased was needed to pay the estate settlement cost, but in only one case could the failure to achieve the objective of keeping the farm in the family be attributed to this cause.[1]

Obstacles to minimizing costs of estate settlement

One of the obstacles which must be overcome before this objective can be achieved was found to be a lack of knowledge concerning the amount and kind of costs involved in the settlement of estates. For example, the respondent landowners appeared to be unaware of the burden of death taxes on their estates. As previously mentioned, death taxes made up only a portion of the total costs of estate settlement, but in those cases where they were paid, the average costs for death taxes were higher than any other type of cost (Table 39).

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[1]In all probability the heirs may have purchased the personal property in some of these cases so that the going concern would be maintained.

In an attempt to evaluate the degree to which the respondents were aware of this potential tax burden, they were asked to estimate the amount of taxes they would have to pay assuming they would die with the same amount of property as they possessed at the time of interview. Fifty-five per cent, or 51 of the 94 respondents were unable to make any kind of an estimate of their potential death tax burden. In comparing the estimated tax in the remaining 43 cases with the calculated tax,[1] 14 respondents were found to have overestimated[2] the death tax load, (Table 41). As the gross value of the estate increased a decreasing proportion of the respondents tended to overestimate their taxes as compared to the proportion having some calculated taxes.

On the other hand, the respondents with plans may tend to overestimate the death tax burden more often than those without plans, since awareness of the tax load may be one reason for having a plan. In testing this hypothesis, five of the 31 respondents without plans were found to overestimate

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[1]Calculation of the potential tax burden, that would be levied on the respondents' estates had they died at time of interview, revealed that 30 out of 94, or 32 per cent, would pay some death taxes. On the other hand only 15 per cent of the second group of deceased relatives were found to have paid such taxes. This difference apparently is due to the lower average net worth of the deceased group compared to the respondent landowners (Table 10).

[2]Nine respondents underestimated the calculated tax they would have to pay.

Table 41. Estimation of taxes by respondents according to gross value of estate by transfer plan, number and percentage

Gross value of estate	Without plans				With plans				All cases			
	Cases that would pay taxes		Overestimated taxes[a]		Cases that would pay taxes		Overestimated taxes[a]		Cases that would pay taxes		Overestimated taxes[a]	
	Number	Per cent	Number	Percentage of number who would pay taxes	Number	Per cent	Number	Percentage of number who would pay taxes	Number	Per cent	Number	Percentage of number who would pay taxes
Below $20,000	(9) 0	0	1	-	(13)1	7.7	1	100.0	(22)1	4.5	2	200.0
20,000 - 39,999	(11) 1	9.1	1	100.0	(19)0	0	4	-	(30)1	3.3	5	500.0
40,000 - 59,999	(9) 2	22.2	3	150.0	(12)7	58.3	0	-	(21)9	32.9	3	33.3
60,000 and above	(2) 2	100.0	0	-	(19)17	89.5	4	23.5	(21)19	90.5	4	21.1
All groups	(30) 5	16.1*	5	100.0	(63)25	39.7*	9	36.0	(94)30	31.9	14	46.7

*Significant at the 2.5 per cent level.

[a]Also includes the cases where respondents believed they would pay taxes but there were no calculated taxes.

their taxes, compared to nine of the 63 respondents with transfer plans. This difference was found to be insignificant. In relation to the number of cases that would pay some tax, the landowners with plans tended to overestimate taxes less often than those without plans (Table 41).

The respondents with plans were asked if they had done anything in their plans to reduce the amount of attorney fees, administrative fees, court costs, and death taxes. Some of them were uncertain as to what they had done and the reason for doing it. Several of the respondents mentioned that they had depended on the lawyer who drew up their will to take care of these matters. After considerable probing the following responses were obtained: 68 per cent said they had done nothing to reduce death taxes; 50 per cent did not know how to reduce administrative expenses; 49 per cent had done nothing about reducing attorney fees; and 35 per cent had taken no action to reduce court costs. This would seem to indicate that many of the respondents did not possess the necessary information concerning settlement costs and the practices needed to minimize them.

Conflicting objectives may be a contributing factor in this situation. Additional studies may indicate that since the respondents had more important objectives, they had not taken the time to acquaint themselves with the knowledge and practices necessary to minimize settlement costs. Only one

of the respondents mentioned this objective as being his most important objective.

Further evidence of this problem of conflicting transfer objectives is provided by the infrequent use of lifetime transfers of property. Since the total amount of costs appeared to be dependent in large part on the gross value of property, some of the transfer costs may have been reduced by inter vivos transfers.[1] However, to the extent that the landowner makes such transfers, economic security for old age or retirement income may be impaired. Some of the respondents appeared to be aware of this conflict. Of the 39 cases that held both objectives, only 38 per cent thought their present plans would enable them to minimize costs of transfer.

In some situations an inter vivos transfer may achieve other objectives. For example, the objective of early assistance to children may be achieved if the transfer is made at the proper time. However, by the time the respondent is certain of an adequate retirement income and decides to make a gift in order to reduce transfer costs, the children may have reached the age when it no longer is possible to achieve the early assistance objective. This possibility is dis-

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[1] Inter vivos gifts are subject to a gift tax, however the rates are lower than for the estate tax and the exemptions are broader. It is possible for a landowner and spouse to give $60,000 during their lifetime plus $6,000 annually without paying a federal gift tax.

cussed further in the next section. On the other hand, several of the respondents expressed the opinion that they had worked hard for their property and they expected their children to do the same.

Another possible obstacle to the achievement of this objective is the time element. Hypothetically, the length of time required to close the estate proceedings may contribute to higher transfer costs. Now to the extent that this hypothesis is valid, those families with the least ability to pay[1] high settlement costs may minimize such costs by reducing the period of time required to administer the estate. This in turn would leave more resources for the achievement of other objectives.

In order to test this hypothesis the average total transfer costs of the second group of deceased relatives are presented in Table 42, according to the length of time required to settle the estate. The medical and funeral expenses, and death taxes were excluded from this analysis as such costs were not found to be associated with the amount of time required to settle the estate.

In comparing the average costs and number of months needed to close the estate very little correlation was found.

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[1]As previously mentioned, the smaller estates required more time to settle the estate (Table 36).

Table 42. Average transfer costs[a] of deceased relatives II and length of time[b] required to settle estate by intestate and testate cases, number and average amount

Length of time	Intestate		Testate		All cases	
	Cases reported	Average costs	Cases reported	Average costs	Cases reported	Average costs
Under 12 months	7	766	9	754	16	759
12 to 17 months	17	563	7	138	24	439
18 to 23 months	10	510	3	383	13	481
24 months and over	4	392	6	591	10	512
All groups	38	569	25	498	63	541

[a]The above data exclude those costs not likely to vary with the time required to close estate such as medical and funeral expenses, and death taxes.

[b]Time between death of deceased relative and date of final report.

In fact, the relationship found was directly opposite to the one expected. The estates that were settled within a year had higher average costs than those requiring more than a year (Table 42). Thus, it would appear that in order to minimize transfer costs the estate settlement should be prolonged. The data in Table 42 indicate that even though the estates settled within a year have higher costs, the average costs do increase when the period of time is extended beyond a year. For example, the cases that required 12 to 17 months to close had average costs of $439, compared to $512 for those requiring 24 months or more. Thus the average costs increased by $73 when the period of time was extended.

The above analysis only considers the direct financial costs as related to prolonged estate settlement. There are other costs to consider. To the extent that the settlement of the estate is delayed, uncertainty among heirs may hamper the operation of the farm as a productive unit. In view of such direct and indirect costs of long periods of administration, there may be some need for a simplified, shorter and cheaper method of closing estates, especially those with a gross value of $10,000 or under. This proposal is not without precedent. The 1949 legislature of Wisconsin passed legislation permitting the quick closing of estates where the value of property does not exceed a minimum amount.[1]

[1]See Ward and Beuscher, op. cit., p. 405 for a discussion of proposals designed to reduce the legal procedure involved in the closing of small estates.

Reference has been made to the insufficient knowledge of and to the infrequent use of practices which result in lower estate settlement costs. In an effort to determine the extent that the respondent landowners had failed to make the most of their opportunity to adopt such practices, the respondents who had made plans were asked to indicate what steps they had taken to reduce transfer costs. Thirty-five per cent of the respondents in this category as compared to 38 per cent of the deceased group indicated that nothing had been done (Table 43). Thus, over one-third of the landowners who had an opportunity to reduce costs failed to do so. No specific reasons were given for this failure; however, some of the respondents seemed to possess an attitude of indifference. Several were of the opinion that nothing could be done, that such costs were determined by legal procedure, therefore a person could do nothing about reducing them.

As previously mentioned, a landowner may exempt the executor from posting bond; however, only 33 per cent were found to have made such a provision. Twenty-five, or 40 per cent, of the respondents with plans thought that the executor appointed would do everything possible to keep transfer costs to a minimum. Such an executor with an interest in the family may also be more likely to waive a portion of the administrative fees.

Table 43. Methods used by respondents and deceased relatives[a] to reduce transfer costs, number and percentage

Method	Respondents		Deceased relatives I	
	Cases reported	Percentage of all cases	Cases reported	Percentage of all cases
	Number	Per cent	Number	Per cent
Joint tenancy	19	30.2	0	0
Trust	0	0	1	4.8
Planned distribution of property	0	0	1	4.8
Proper preparation of will	26	41.3	2	9.5
Appointed executor with interest in family	25	39.7	13	61.9
Waiver of bond requirements	21	33.3	13	61.9
Lifetime gifts	3	4.8	5	23.8
Nothing	22	34.9	8	38.1
Total[b]	63	100.0	21	100.0

[a]Includes the respondents with plans and testate relatives.

[b]Some of the respondents and deceased relatives used more than one method, therefore the individual items add to more than the total.

Disagreement or friction among the heirs may result in higher court costs and attorney fees. Two such instances were reported in the ex post cases; however, in only one case did such friction result in higher costs. Twenty-six, or 41 per cent of the respondents with plans thought they had reduced this possibility by the proper preparation of a will (Table 43). A will that is properly prepared is less subject to misinterpretation, and any misunderstanding on the part of the heirs may be a source of friction or discontent. On the other hand, only eight of the 63 respondents with plans had discussed the plan with family members. In any event the language of the will is important. If a will is not clear, the executor may have to get the court to interpret it. The court usually moves slowly in such situations and higher court costs may result.

Few landowners were willing to make intra-family gifts because of a conflict with the retirement income objective, even though such a program might have produced substantial tax savings. One may resolve such conflicts by making revocable gifts in trust. In other words, one can get the property back again if additional income is needed. There is no particular tax advantage to a revocable trust, for the property will be included in the gross estate for tax purposes. On the other hand, no gift tax is paid on the transfer, and the heir receiving the property on death of the owner takes

as his income tax basis the value of the property at that time.[1] A revocable trust is like a will without some of a will's disadvantages. For example, there are no specific formalities to be observed in setting up the trust. Furthermore, the delay and expense involved in the probate of a will may be avoided by a trust.[2] However, none of the respondents planned to use a trust and only one of the relatives was thought to have used this device to reduce estate settlement costs (Table 43).

Thirty per cent of the respondents with plans mentioned joint tenancy as a method used in reducing transfer costs. It is improbable that such a device would result in tax savings in each case, for such property is included in the gross estate for tax purposes even though jointly owned with the surviving spouse.[3] However, that part of the property going at death from property owner to spouse can qualify for the marital deduction and to that extent reduces the taxable estate. Also the estate settlement costs may be reduced, in that this property is not turned over to the estate manager.

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[1]This may result in certain income tax savings for the heir.

[2]Adapted from material in How to Build Your Estate Through Tax Planning. Research Institute of America. New York. Staff Report. July 1955. p. 6.

[3]See Timmons and O'Byrne, op. cit., p. 213 for a discussion of certain income tax problems caused by such a transfer.

In this section, considerable evidence has been presented indicating that the majority of the respondents was not fully aware of the potential death tax burden and did not possess the necessary information concerning settlement costs or the practices needed to minimize them.

Overcoming obstacles to minimizing estate settlement costs

A majority of the respondent landowners failed to take the necessary steps to minimize estate settlement costs. The major factors preventing the achievement of this goal appeared to be a general lack of knowledge concerning such costs, the practices needed to minimize them and the resultant effects of the practices that were used. In order to overcome these obstacles to insure that the next generation receives as much as possible of the estate, primary emphasis should be placed on educational programs designed to aid farm families in the analysis of their objectives and alternative courses of action. Educational material in popular form could be made available to the farm people, acquainting them with the various methods suitable for use, and to the fullest extent possible informing them of the consequences of each measure as it applies to their particular situation. No two situations are alike and the practices adaptable to one farm family may not be practical or advisable for another. A series of radio talks previously suggested in connection with the objective of

keeping the farm in the family may also be used here as one means of getting this information where it is needed.

An estate planning conference could be organized on a county wide basis. Such conferences given periodically could draw upon the necessary professional talent in the community for technical assistance. An opportunity could be given those people with transfer problems to discuss them with the proper specialist. For example, if a farm owner had a question concerning some legal matter he would be able to discuss it with an experienced lawyer. Competent professional talent of this nature is available in most communities at present; however, farm people tend to wait until it is too late, or else they depend on people ill-fitted to render such counsel.[1]

The above proposal has a precedent in that educational work of this character has been developed in Iowa through the cooperative endeavors of the Iowa Agricultural Extension Service and the College of Law of the State University of Iowa. In certain areas resources may not be readily available for such a project; however, in most instances general information can be given the farmer acquainting them with their alternatives and informing them where to obtain the needed technical assistance.

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[1]This opinion was expressed by an attorney; however, no attempt was made to substantiate it.

Provision of Early Assistance to Children

Early assistance as an objective

Respondent landowners with children considered the objective of early assistance to children to be of relatively minor importance. Only 26 per cent of these respondents rated this objective as either first, second, or third in importance (Table 19). Twenty-five of the 74 respondents with children and 14 of the 47 deceased relatives were found to hold this objective as a goal of the transfer process. (Table 17).[1]

Only ten of the respondents with this objective expressed achievement, whereas all of the deceased group were thought to have achieved it (Table 18).[2] The fact that most of the respondents had some children still in school appeared to be associated with this highly significant difference. All of the children of the ex post cases studied were out of school, whereas over two-thirds of the respondent group with this objective had children still in school. Eighty-six per cent of the respondents who indicated non-achievement, as compared to only 40 per cent of those who expressed achievement, had children still in school. This greater tendency to express non-achievement may be due to the fact that the respondents

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[1]This difference is not significant.

[2]This difference was found to be significant at the one per cent level.

with children still in school have not had the same opportunity of providing early assistance as those with children out of school. Also, the respondents may more readily express achievement after their children have finished their education and are established in some line of work.

There was no difference in the degree of achievement expressed by the intestate and testate cases of the deceased group; however, the respondents with plans indicated the achievement of this objective to a greater extent than did those without plans. Fifty-six per cent of the former expressed achievement, whereas none of the respondents in the latter case were satisfied that they would be able to provide early assistance to their children (Table 18). This difference between the two groups appeared to be due to the same factor which accounted for the disparity in the rate of achievement between the respondents and the deceased relatives. All of the respondents without plans who held this objective had children still in school, as compared to only 56 per cent of those with plans.

Degree that respondents had received early assistance from their relatives

In an effort to determine the extent that farm parents transfer farm land or render other forms of assistance to their children, the respondent landowners were asked to specify the

forms of assistance they and their spouses had received from their relatives (Table 44). Twenty-one of the respondents reported receiving no assistance and three of the respondents were single. Overall, an average of 2.35 different types of assistance was received by each member of the respondent group. The respondents in 87 instances reported receiving early assistance, as compared to 78 cases of assistance which tends to be received later in life. In other words, there was little difference found in the occurrence of early assistance contrasted to late assistance.

Hypothetically, early assistance may be of greater value to children than assistance received later in life, especially if the former is received about the time children are beginning their careers. In order to test this hypothesis, the respondents were also asked to indicate which particular form of assistance had been of the most help from a financial point of view. In 16 cases the respondents reported that the assistance received by their spouses had been the most important (Table 44). The respondents indicated that inheritance had been the most important financially in 24 of the remaining cases, while 15 denoted that the rental of land had provided the greatest financial benefit.

Only 31, or 42 per cent, of the cases that received assistance from relatives specified that a form of help which tends to be received early in life had been of most financial

Table 44. Comparison of early and late assistance respondent and spouse received from relatives and forms of assistance which provided the greatest financial benefit

Forms of assistance	Respondent		Spouse		Total			
	Total cases	Most financial help	Total cases	Most financial help	All cases	Most financial help		Most financial benefit out of all cases
	Number	Number	Number	Number	Number	Number	Per cent	Per cent
Received early in life:								
College education	7	1	7	0	14	1	7.1	1.3
Gifts of livestock and equipment	16	5	5	0	21	5	23.8	6.8
Loans of cash	24	7	5	1	29	8	27.6	10.8
Loans of feed, livestock and equipment	2	0	0	0	2	0	0	0
Labor and management help	3	0	0	0	3	0	0	0
Rented land	35	15	4	2	39	17	43.6	23.0
Sub-total	87	28	21	3	108	31	28.7	41.9
Received late in life:								
Gifts of cash	5	0	5	2	10	2	20.0	2.7
Gifts of land	6	4	1	0	7	4	57.1	5.4
Sale of land	23	2	0	0	23	2	8.7	2.7
Inheritance	44	24	29	11	73	35	47.9	47.3
Sub-total	78	30	35	13	113	43	38.1	58.1

Table 44. (Continued)

Forms of assistance	Respondent		Spouse		Total			
	Total cases	Most financial help	Total cases	Most financial help	All cases	Most financial help		Most financial benefit out of all cases
	Number	Number	Number	Number	Number	Number	Per cent	Per cent
Total	165	58	56	16	221	74[a]	33.5	100.0
Average per respondent	1.75	-	0.6	-	2.35	-	-	-

[a]Twenty-one respondents received no assistance whatsoever and one respondent indicated that two different forms of assistance were equal in financial benefit.

benefit. On the other hand, a form of assistance which tends to be received late in life was designated as having been of greatest financial benefit in 43, or 58 per cent, of the cases (Table 44).[1]

In order to subject the above hypothesis to a more searching analysis, the average age of the respondents, when they received the assistance which helped them the most financially, was found to be 33.6 years (Table 45). Forty-one per cent of the respondents mentioned that they had received their most helpful assistance before reaching the age of 30 years, as compared to only three per cent who had received their greatest financial help after reaching the age of 60. This difference may be considered as evidence that early assistance may be more beneficial than assistance received later in life.

Age gap[2] between the two generations

In some cases, the farm parents may be aware of the greater benefit in early assistance to their children, but they may be unable to achieve this objective because of a conflict with the retirement income objective. For example,

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[1]This difference is not significant.

[2]For the purposes of this study, age gap or time gap is the period which elapses between the time when children are ready to start farming and the parent landowner is ready to retire.

Table 45. Age of respondent when assistance which provided most financial benefit was received, number and percentage

Age class	Respondents	
	Number	Per cent
20 to 29 years	30	41.1
Mean of class	23.9	
30 to 39 years	26	35.6
Mean of class	33.9	
40 to 49 years	8	11.0
Mean of class	43.9	
50 to 59 years	7	9.6
Mean of class	53.0	
60 years and over	2	2.7
Mean of class	64.0	
Total	73	100.0
Average age	33.6	

by the time the farm parents are assured of an adequate retirement income, it may be too late to turn the farm over to the operating heir in time for him to receive the maximum benefit.

The respondents reported a total of 39 instances in which they had rented land from their relatives (Table 44). However, in only 44 per cent of these cases was this assistance rated as the most beneficial. Thus some evidence was found that farm parents tend to be reluctant about helping their children to get an early start in farm operation.

Some of the respondents' children may have little opportunity of receiving this form of assistance during the lifetime of their parents, because 25 of the respondents do not plan to retire (Table 22). In the remaining cases the age gap between the two generations might be too great to achieve the early assistance objective. The average age of retirement for the 21 respondents who were retired at time of interview was 65.2 years. For the 41 respondents who had retirement plans, the average age at which they expected to retire was 63.5 years. Therefore the average age of retirement for the respondent landowners was found to be 64.

Assuming a differential of 25 years between the ages of the father and son, it appears that the son would be about 40 years old before he would be given an opportunity to take over the farm. Since the type of assistance which yielded the greatest financial benefit to the respondents was received at

the average age of 33.6 years (Table 45), a time gap of approximately six years might prevent the son from receiving the maximum benefit from this assistance.[1]

The respondents appeared to be unaware of this age gap in that they were not attempting to overcome it by retiring at an earlier age.[2] Eleven of the 21 retired respondents indicated that they had retired in order to let their children take over (Table 46). The average age of retirement for this group was only 63.4 years, as compared to the average age of 67 years for the other ten respondents who had retired for other reasons. The absence of children appeared to contribute to this difference, for when the two cases without children were excluded the average age of retirement for the latter group was found to be 66 years. Apparently the respondents did not retire much earlier to let their children take over than they did for the other purposes of retirement.

The impact of the social security program on the age and plans for retirement was discussed in a previous section. The

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[1]The figures used in calculating this time gap are averages. The case study method would be more fruitful in the analysis of individual family situations.

[2]Parents may still be aware of the age gap but conflicts with the retirement income and the equitable treatment objective may prevent them from turning the farm over to one of the children.

Table 46. Reasons given by respondents for retiring from active farm operation and average age of retirement, number and per cent

Reason for retirement	All cases		Average retirement age
	Number	Per cent	Years
Let children take over	11	52.4	63.4
Was not able to continue	9	42.9	71.0
Other reasons	1	4.7	32.0
Total (average)	21	100.0	65.2

time gap would have been increased in a third of the cases involving retired respondents and decreased in over one-half of them if the program had been in effect.

Methods of providing early assistance to children

Even though 44 per cent of the 94 respondents interviewed received some form of family assistance in obtaining ownership of their farm land (Table 1) and the respondents reported receiving early assistance in 87 instances (Table 44), some evidence was presented in the previous section that this assistance had not provided the maximum benefit in that it was received too late.

This failure to provide assistance to children at the proper time may be attributed in large measure to the conflicting transfer objectives of the farm parents. Previous mention has been made of the conflict between the retirement income and the early assistance objectives. Also, the desire to achieve the equitable treatment objective may prevent the farm parents from turning the farm over to one of the children.

Landowners who are confronted with these conflicting objectives may benefit from an informative program, whose purpose is to convey that a small amount of assistance given at the proper time may be of more significance to their children than a larger amount at another time. About 40 per cent of the respondents, who reported receiving assistance from their relatives, indicated that a type of assistance which does not compete to a great extent with sources of retirement income had rendered them the greatest financial benefit (Table 44). In other words, to the extent that such a program is successful, the farm parents may be able to achieve the early assistance objective without placing heavy demands on their already limited sources of retirement income.

For those situations where the retirement income conflict cannot be resolved in the above manner, early planning and a father-son operating arrangement[1] may cushion or offset the

[1]See Elton B. Hill and Marshall Harris. Family Farm-Operating Agreements. Michigan Agri. Exp. Sta. Spec. Bul. 368. January 1951 for a discussion of the elements that contribute to successful family farm-operating agreements.

effects of the age gap between the two generations. The children should be informed at an early age of the forms of assistance which they can expect so that they can adjust their careers accordingly. Perhaps these parents may be able to achieve the early assistance objective by placing more emphasis on vocational guidance, a form of assistance which is non-monetary in nature. The local school system and its resources could be utilized in such a guidance program.

In those cases where the age gap is an obstacle to the achievement of this objective, the youngest son rather than the oldest should be given the opportunity of operating the farm. It might even be necessary to skip a generation if the age gap between father and son appears to be too great, i.e., the landowner could turn the farm over to one of his grandchildren.

Prevention of Excessive Debt

Reference has been made to the fact that farm acreages, land values, and non-real-estate investment have increased to the point where larger amounts of capital are needed in order for farm people to operate farms of their own. The respondents were found to possess farm real estate with an average value of $28,477 and the average value of their personal property was $12,463 (Table 10). Therefore an heir would need about $40,000, including his own share, in order to take over

the farm land and personal property in the settlement of such an estate. In some cases the heir may be forced into debt beyond his repayment ability.[1] In buying the farm from the other heirs, heavy mortgages may be given either to the other heirs or to loan companies. In event of an economic crisis, these large mortgage payments may reduce the operating heir's standard of living, or he may be forced to exploit the soil and improvements in his efforts to retain ownership of the farm. In certain situations the operating heir may lose all or a part of the farm.

Importance of the prevention of an excessive debt burden as an objective

Some farm parents may consider the prevention of an excessive debt burden on the operating heir as an important objective of the transfer process. Only five of the respondent landowners interviewed held this objective; however, three of them did mention it as being of major importance.

Only two of the respondents who expressed a desire to prevent an excessive debt burden indicated achievement. One of these cases was discussed in connection with keeping the farm in the family. The other involved a single heir and posed no problem in respect to this objective. In this situa-

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[1]See Timmons and O'Byrne, op. cit., p. 156 for a discussion of this possibility.

tion an unmarried son was helping his father operate the farm under an oral partnership. The father was planning to will the farm to his son even though it would all go to him by intestate distribution.

In two of the remaining three cases that held this objective, there was a single child who might want to operate the farm without the perils of an excessive debt; however, in neither case had plans been made to achieve this objective. In one instance, the son was finishing high school and plans were being made for a father-son operating agreement. The respondent and his spouse owned the farm land in joint tenancy; therefore it would all go to the surviving spouse upon death of the respondent. In this case, the respondent did not think his son would be able to purchase the farm from the spouse without assuming an excessive debt.

In the other case, the respondent's family was composed of a spouse and two children, a daughter and a son. The girl had married a neighbor boy and they were farming his parent's farm. The son was only thirteen years of age and thus far had expressed little inclination for the farm. The respondent indicated that if his boy became a farmer he would be given a half-interest in the farm by an inter vivos transfer and the remaining half would go to the daughter upon death of the surviving spouse. When asked about the equitable treatment objective, the respondent expressed the opinion that the lifetime transfer to the son would not be unfair to the

daughter, for he had sent her to college for two years, and that her husband's parents had given them all the help needed to become established in farming. The lifetime gift in this case may do little towards mitigating the possibility of an excessive debt burden. The farm was not large enough for two separate and efficient units; therefore the son would still be faced with the problem of buying his sister's share of the farm upon the death of his parents.

The other respondent that wanted to prevent an excessive debt on the operating heir had seven children. The oldest was 24 and the youngest was four years of age. This respondent had made no plans for one of the heirs of his estate to purchase the remaining heirs' share, for the children were too young.

Only two of the ex post cases were believed to have possessed the objective of preventing an excessive debt burden. In one of these cases the property of the deceased went to the respondent who was the sole heir; thus the objective was achieved without any difficulty. In the other instance, the respondent who said that his parents had wanted to prevent an excessive debt also said that this was one of his objectives. Both apparently had achieved this objective to the respondent's satisfaction. The ex ante case involved the use of a purchase agreement which included a provision for flexible payments and was discussed in the section devoted to keeping

the farm in the family; however, the ex post arrangement was worked out among the nine children after the surviving spouse's estate was settled.

The existence of a transfer plan appeared to make little difference in the extent that this objective was held or was achieved in either the ex ante or the ex post cases.

In summary, the cases holding and expressing achievement of the objective of preventing an excessive debt burden on the operating heir, most frequently were those in which the family was made up of a small number of children, preferably a single heir; however, in one instance, a large number of children were able to make an arrangement achieving this objective after the estate was settled.

Debt assumed by the operating heir in buying farm from the other heirs

An effort was made to determine what past experience the respondents had had in the assumption of an excessive debt burden incurred in purchasing property from their deceased relatives. In ten of the ex post cases, the respondent had purchased the shares of the other heirs in the estate settlement; however, in only two of these instances did the respondent go into debt to the other heirs. In both of these situations the other heirs did not exert any pressure upon the purchasing heir to speed up payment.

On the other hand, five of these respondents who had purchased property in the estate settlement indicated that they had experienced some difficulty in meeting the principal and interest payments. Two respondents mentioned bad crops and poor market prices as the source of this difficulty, whereas in the remaining three cases the debt burden was truly excessive in that the payments were more than the farm could carry. Little empirical data were obtained in this respect; however, from a hypothetical point of view the operating heir oftentimes finds himself in a poor bargaining position with regard to the purchase price. As previously mentioned, this position may be the result of sentimental attachments to the home place, or because the transaction was consummated during a period of inflated land prices. Regardless of the cause, in two of these five instances, the heir who had purchased the shares of the other heirs in the estate settlement later lost the farm because the debt burden assumed was more than the farm could carry.

In order to test the hypothesis that equal sharing of the estate among the children often results in a heavy capital requirement for the heir who buys the farm, Table 47 indicates the potential debt burden such an heir would have to assume in acquiring full ownership of the real estate in the settlement of the respondent's estate.

Only those cases where the respondents had more than one child are included in the subsequent analysis. For those

Table 47. Share of real estate operating heir would inherit and the share he would have to purchase in order to acquire full ownership of real estate

Number of cases[a]	Number of children	Share of real estate to each child	Share operating heir must purchase to acquire full ownership		
		Per cent	Per cent	Aver. value $	Range $
20	2	50.0	50.0	14148	5700-32666
19	3	33.3	66.7	18238	6000-33333
5	4	25.0	75.0	17632	5513-37650
3	5	20.0	80.0	21819	12000-38400
4	6	16.7	83.3	22856	9750-41667
3	7	14.3	85.7	20428	14571-26571
3	8 and over	12.5	87.5	49130	10500-122000

[a]This tabulation includes only the cases in which a plural number of children would share in the estate.

cases in which only two children would share in the estate, the average value of the capital requirement needed was found to be $14,148 (Table 47). On an individual basis, the amount of capital required ranged from $5700 to $32,666 for this group of estates involving only two children. On the other hand, the average amount of capital needed increased to $49,130 for those cases in which eight or more heirs shared in the settlement of the respondent's estate. The amount required would have been $122,000 in one case where the estate would be divided equally among nine children. Thus the average value of the debt burden assumed was found to vary directly with the number of children sharing the estate.

The above analysis was based on the assumptions that the respondent landowners would die with the same amount of real estate and the same transfer plan as they possessed at the time of interview and that there would be no surviving spouse. In those cases where a spouse does survive, the amount of capital needed to acquire full ownership would be greater, for the share going to the purchasing heir would be less.

In addition to the above limitation, this analysis did not take into consideration the value of farm machinery and other property which would be necessary for the efficient operation of the farm. When these items are evaluated the capital requirement would be somewhat larger than that portrayed in Table 47.

Plans to lighten the debt load assumed by the purchasing heir

Even though some evidence was found that the purchasing heir might be burdened with an excessive debt, the respondents appeared to be little cognizant of this danger in that only three[1] of them had made plans for one of their children to purchase the farm in the settlement of their estates (Table 48). And nine, or 23 per cent, of the respondents who had made no plans enabling one of their heirs to purchase the farm indicated that they had not thought about it. Such information would tend to support the opinion that the respondents interviewed were little aware of the true significance of this problem and consequently had made few plans to lighten the debt load.

Twelve, or 30 per cent, of the 37 respondents, in expressing reasons for not making such plans, said that they wanted to let their children make the decision as to which child or heir would be allowed to purchase the farm. For these cases it would appear that the equitable treatment objective might be the decisive element as to whether or not a plan was made enabling a certain heir to purchase the land in the settlement of the estate.

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[1]These three cases were treated in some detail in the discussion of the remedial measures designed to keep the farm in the family.

Table 48. Extent that plans which enabled one heir to purchase the other heirs' share of the respondent's estate had been made and reasons for not making such plans, number and percentage

Item	Number	Per cent
Plan made for one heir to purchase farm in settlement of estate	3	7.5
Reasons for not making a plan enabling one of the heirs to purchase farm:		
Wants to let children decide	12	30.0
Had not thought about it	9	22.5
Children are too young	7	17.5
Have enough farms for all heirs	6	15.0
Farm too small as it is	2	5.0
Not important	1	2.5
Total[a]	40	100.0

[a]This total includes only the respondents with plans who had two or more children.

Four of the ten respondents who were not satisfied with the intestate distribution expressed the opinion that one of their children should not buy the interest of the other children in the estate settlement. In one of these instances, the respondents indicated that the existence of a potential excessive debt burden was the basis for this belief.

The remaining six respondents in this category voiced the belief that one of their heirs should obtain full ownership in the settlement of their estates. No indication was received as to a specific source of credit in either of these six cases; however, two of these respondents thought that the other heirs would be willing to help with flexible terms. When asked if the heir might have to assume a debt load beyond his ability to pay, the other four respondents gave an affirmative answer. In neither of these four instances were the respondents aware of the measures which might prevent the purchasing heir from getting into trouble with an excessive debt.

Parsons and Waples, in conducting an ownership study in Wisconsin, found that farm parents frequently sold the farm to their children at a lower price than they would have received had they sold to a non-family member.[1] Some evidence was obtained that such a practice prevails to a certain extent in Jefferson County. In one-third of the 15 ex post

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[1]Parsons and Waples, op. cit., p. 38.

cases that reported an inter vivos transfer to their children, the transaction had been made at less than market price.

Landowners, who desire to prevent an excessive debt burden on the purchasing heir, might profit from this experience as well as the case cited in connection with the achievement of keeping the farm in the family. In making plans for one of the heirs to purchase the farm in the estate settlement, the landowner and his family could use a 30-year average of crop yields and prices, thereby preventing an inflated value from being used to determine the purchase price. An alternative plan has been proposed by Stewart.[1] This plan may also make the financing of farm transfers within a family easier and safer for all the parties concerned in that it incorporates a contract containing a revisable-price clause. In other words, the original agreed-on price is allowed to change with changes in land values. Such a device would tend to prevent the real price of the land from changing over time. Either one of these plans could be used in conjunction with a will which includes an option to buy.

For those landowners who fail to take any positive action designed to mitigate excessive debt burdens, legislation may

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[1]Stewart, op. cit. p. 3-16.

enacted permitting the purchasing heir to buy the farm in the estate settlement at the appraised agricultural value rather than at the prevailing market price.

In some situations, the farm may be transferred at less than its market value under a father-son agreement. Concessions in the amount of down payment required may be allowed by the other heirs, or the inheritance of the purchasing heir may account for the down payment. As previously mentioned, the equitable treatment objective would be achieved, for the reduction in the price of the farm could be considered as compensation for the labor that the purchasing heir had performed under the father-son arrangement. An alternative source of capital for the down payment may be utilized by taking out an insurance policy on the father's life, naming the purchasing heir as the beneficiary. To the extent that the premiums for this policy are paid out of the undivided farm profits of the farm operating agreement, the conflict with the equitable treatment objective should be minimized.

Transferring the Farm Business as a Going Concern

An analysis of the ex post information revealed that the continuity of farm ownership was broken infrequently when the farm property was transferred upon the owner's death. Even though the continuity of ownership is maintained, the operation of the farm may be reduced or may cease entirely as a result of the transfer process. Such a possibility may arise

when the livestock, feed and farm equipment are sold separately from the land and buildings. In some cases the personal property is divided among all the heirs, impairing the capacity of the farm to produce and income, i.e., the momentum of farm operation is interrupted and the income stream is discontinuous. It may take the new operator several years to get the farm back into full production.

Extent to which landowners possessed objective

Even though the "simple practice of selling the farm whole--land, buildings, livestock, and equipment--would seem to recommend itself for wide use",[1] only four of the respondents interviewed said that maintenance of the going concern was one of their objectives. Only one of these four mentioned it as being of major importance.

All four of these respondents appeared to possess considerable pride in their farms, and three-fourths of them were operating their farms. However, the non-operator was able to make a trip to the farm several times a day, as he lived in a small town about two miles distant from his land. This

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[1]Parsons and Waples, op. cit., p. 21.

respondent did not believe he would be able to maintain the going concern, even though his son-in-law was farming the place as a tenant. When asked why no plans had been made for the son-in-law to continue the farm operation, he said that it would be best to let the two children decide about this. Perhaps this respondent was of the opinion that making such a plan would be unfair to the other child. He indicated that his present plan of distribution would result in the achievement of the equitable treatment objective.

Another respondent holding this objective possessed a large dairy herd valued at $25,000. He was not certain of achieving it since all three of his children were still in school. He had made no plans for the continuation of the going concern and indicated that he would have to wait until an eight-year-old son finished school before doing so.

Only two of the respondents with this objective expressed achievement. One of these respondents had no plan; however, he was satisfied with the intestate distribution for the time being since his three daughters were young and the title to real estate was held jointly with his wife, with rights of survivorship. He had plenty of insurance to mitigate the possibility of the administrator having to sell any of the personal property to pay the settlement costs. On the other hand, his insurance policies named his wife as beneficiary rather than being payable to his estate. As mentioned in a

previous section, such funds cannot be used for this purpose unless the beneficiary is agreeable. In this case the spouse was willing; however, it might be advisable for this young landowner to change beneficiaries on one of his policies in later years, thereby insuring the maintenance of the going concern.

The other respondent who expressed achievement had an only child who was just finishing high school. After serving a period in the armed services, this son intended to take over the farm operation. In the meantime, the respondent planned to make a will leaving a life estate to his spouse and a remainder interest to his son. Even though he was confident of maintaining the going concern, this respondent was heavily in debt and in event of his death the personal property would probably need to be sold to pay his debts. His insurance program was very inadequate in view of this situation.

One of the deceased relatives was believed to have possessed the objective of maintaining the going concern. In this case the respondent had been the sole heir and the farm was transferred intact. An analysis of this case revealed that several related objectives had been achieved because the family composition prevented a conflict with the equitable treatment objective. Apparently this parent had been able to transfer the farm business as a going concern, to maintain the farm as an economic unit, and to prevent the operat-

ing heir from being burdened with an excessive debt primarily because he had only one heir. If there had been more heirs to this estate (children in the family) none of the objectives just mentioned would have been achieved unless the parent had taken certain positive steps to achieve them. Presumably this course of action would have been restricted by the objective of equitable treatment.[1]

In summary, an analysis of the above cases revealed that the operating respondents appeared to possess a greater desire to maintain the going concern than did the non-operating ones, and the respondents who were not concerned about the equitable treatment objective tended to express achievement of this objective to a greater extent than did those respondents who were concerned.[2]

Obstacles to the uninterrupted operation of the farm business

Information was sought concerning the number of times the continuity of farm operation had been interrupted as a result of the death of the respondents' relatives. The respondent

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[1]This statement is based on the assumption that the equitable treatment objective would have been more important to the parent than the other three objectives.

[2]In this case, the respondents with more than one child would be more concerned about the equitable treatment objective.

landowners reported that a new operator had taken over the farm operation in 14 of the 47 ex post cases. However, eight of these instances were unavoidable in that the deceased relative was operating the farm unit up to the time of his death. The former renter did not want to continue the farm operation in three other situations; and in the remaining three cases, the original operator did not continue to operate the farm because another heir wanted to operate part of the land.

Even though the continuous farm operation was broken in almost a third of the situations concerning the first group of deceased relatives, the problem of maintaining the going concern was found to be minor in that the new operator purchased the livestock and equipment of the original operator in all but three of these cases. Some indication was obtained of the value of a going concern in one of these latter instances, for the respondent reported that three years were required before the new operator was able to reach the same level of production that had been attained by the original operator.

Some evidence was also found, in the analysis of the estate settlement costs of the second group of deceased relatives, that the going concern objective was not achieved because some of the personal property had to be sold to pay the costs of settling the estate.

In order to determine whether or not the respondents were vulnerable to this threat of the going concern objective, the 63 respondents with plans were asked if any provisions for

liquid funds had been made so that the costs of settling their estates might be paid without having to sell any personal property. Forty-six, or 73 per cent, of these respondents said that such liquid assets were available. The respondents, who were satisfied with the intestate distribution, also indicated that there would be enough ready cash to pay all estate settlement costs in 14, or 67 per cent, of the 21 cases in this category. Therefore it would appear that about 30 per cent of the landowners in Jefferson County might not achieve the going concern objective, unless further provisions for ready cash are made.

On the other hand, several of the respondents volunteered the opinion that even though all of their assets were tied up in personal property, they always tried to keep enough additional livestock on hand so that the costs of settling their estate could be paid without impairing the value of the farm business as a going concern.

Additional evidence that the going concern objective might not be achieved, was revealed by the extent to which the respondents had not made plans to assure the uninterrupted operation of the farm business (Table 49). Eighty per cent of the respondents with transfer plans were found to have made no provisions for maintaining the going concern. Farm parents may not make such plans because of a conflict with the equitable treatment objective. The fact that over 25 per cent of the respondents in this group had made no plans to main-

Table 49. Extent that plans to transfer the farm business as a going concern had been made and reasons for not making such plans, number and percentage

Item	Number	Per cent
Plan made for the operator to continue operation of farm upon death of the respondent	12	19.1
Reasons for not making a plan to assure the uninterrupted operation of the farm business:		
Had not thought about it	20	31.7
Wants to let the children decide	16	25.4
Spouse may want someone else to operate farm	7	11.1
Children are too young	6	9.5
Other reasons	2	3.2
Total[a]	63	100.0

[a]This total includes the respondents who had transfer plans at the time of interview.

tain the going concern because they wanted to let their children decide who would operate the farm, tends to support this hypothesis.

Twenty, or 32 per cent, of this group of respondent landowners said that they had not thought about incorporating into their overall transfer plan any provisions for achieving the going concern objective. Apparently many of these respondents were concerned about more important objectives of the transfer process, for as previously noted, only one of the 94 respondents interviewed mentioned the maintenance of the going concern as being of major importance.

A similar lack of concern was displayed by the 31 respondents who possessed no transfer plans. When asked if the going concern would be uninterrupted by the respondent's death, only four of these respondents said yes. In three of these cases the respondents believed that the other members of the family would allow the operator to continue the farm operation. Continuous operation was assured in the remaining instance because there was only one child.

Plans to maintain the farm business as a going concern

Ten of the 31 respondents mentioned above were dissatisfied with the intestate distribution and intended to make transfer plans. Such plans might possibly include some provisions for the achievement of this objective.

Farm parents in this position might profit by sharing the experiences of the 12 respondents who had made plans to protect the farm business as a going concern (Table 49). In eight of these cases, the respondents said that continuous farm operation had been assured by making plans to give the farm to the operating heir, either by a testate bequest or by an inter vivos transfer. The operating heir had been given an option to buy in the remaining four cases.

To the extent that these measures[1] are applied certain complementary objectives may also be achieved. An inter vivos transfer will not only enable the farm parents to maintain the continuity of ownership and of farm operation, but may result in lower estate settlement costs and the achievement of the early assistance objective. In some situations, the practice of giving the operating heir an option to buy the other heirs' share might be less likely to conflict with the equitable treatment and the retirement income objectives. In any event, because of the noticeable lack of concern displayed by the respondents regarding this objective, great emphasis should be given to some type of educational program. Such a program, designed to stress the need of maintaining the farm

[1]Alternative measures, which were discussed in connection with the achievement of other objectives, may also be used to maintain the going concern. For example, a father-son agreement might be coordinated with some plan for the eventual transfer of title to all farm property. For details, see the case cited in the remedial section concerned with keeping the farm in the family.

business as a going concern and to present the farm family with alternative means of accomplishing this and other objectives of the transfer process, should be given the first priority by all interested parties.

Maintenance of Farm as an Economic Unit

The ill effects of excessive[1] subdivision of farm land have long been recognized in parts of the United States and elsewhere.[2] This splitting up of farms into uneconomical-sized units generally intensifies the problem of small farms and non-contiguous strips creating inefficiencies in farming. According to Gibson and Walrath,[3]

> There is little doubt that the small farm problem in many parts of the United States has developed in part from equal subdivision among heirs in both testate and intestate inheritance.

The farm land may be divided into a larger number of operating units in the estate settlement process. This division may

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[1]For the purposes of this study, the farm was assumed to be of adequate size upon the death of the landowner, hence any division in the estate settlement was considered excessive.

[2]See B. T. Inman. Farm Inheritance Practices in Austria. Jour. of Land and Public Utility Econ. August 1947. p. 295 for a discussion of this problem in Austria.

[3]W. L. Gibson, Jr., and Arthur J. Walrath. Inheritance of Farm Property. Jour. Farm Econ. Vol. 29, No. 4. 1947. p. 947.

create units too small for the efficient use of resources, or for the full employment of the operating heir's labor.

Maintaining an economical-sized operating unit as a transfer objective

Preventing such a division was found to be an objective in only four of the ex ante cases, and the respondents expressed the belief that their deceased relatives had possessed this desire in two instances. On the other hand, 50 per cent of the respondents who had this objective mentioned it as being of major importance.

Three of the respondents who wanted to maintain an operating unit of economical size thought that they would be able to do so. Two of these cases have been discussed in regard to the achievement of complementary objectives. One of them had made plans for one of his six children to buy the entire unit during the settlement of his estate. The purchasing heir in this case was protected from the dangers of an excessive debt burden by a flexible credit arrangement that had been agreed on by all family members. Another respondent expressed achievement of this objective because all the farm land would go to his surviving spouse upon his death. Division of the farm land would be prevented in that a single child would inherit the entire farm upon the death of his spouse. The remaining respondent was a single man, who thought that he

would be able to achieve this objective by making plans to will his land to a niece and her husband. Her husband, in addition to his own farm operation, was helping the respondent operate his farm unit (61 acres). Therefore upon the respondent's death, the ownership as well as the operation of both units would be combined under a single owner-operatorship.

The other respondent who held this objective had two children. He was uncertain as to whether his farm unit would be transferred as an economic unit or as a going concern. Apparently this respondent was afraid that the making of a plan to assure the achievement of these objectives would conflict with the equitable treatment objective, for he said that it would be best to let the two children work out the necessary arrangements.

As previously mentioned, two of the ex post cases were believed to possess the objective of maintaining an operating unit of economical size. The respondent said that the farm had not been divided in the estate settlement of one of these cases because the farm had been transferred intact to a single heir. However, the farm was subdivided in the remaining instance because of friction between an only child and his stepmother. The objective was not achieved in this case, but the respondent was able to purchase his stepmother's share from her heirs some years later.

Reasons for physical division

Even though subdivision of farm land was found to be only a minor problem with the deceased relatives who wanted to prevent this division, some evidence was found in the other cases that the estate settlement process had contributed to this difficulty. Forty-one members of the deceased group owned 47 operating units before their death. Six of these units were divided during the settlement of the estate. This increase in number of operating units represents a percentage change of almost 13 per cent (Table 50). However, when the percentage increase is calculated according to the total number of estates involved, about one out of every seven of the ex post cases was found to have been divided in the transfer process.

Furthermore, an additional ten estates were subdivided following the estate settlement. The division of farm land in these instances resulted in an increase of 12 operating units. Overall, the number of units increased from 47 to 65 (38 per cent increase) as a result of the transfer process which was set into action by the landowner's death. In other words, 16 or 39 per cent of the 41 estates studied were subdivided because of the estate settlement. The distribution is similar to that found by Walrath and Gibson in the analysis

Table 50. Operating units by size of family before and after estate settlement, intestate and testate cases, deceased relatives I, number and percentage change

Number of children in family	Intestate (26)			Testate (15)			Total cases (41)[a]		
	Operating units			Operating units			Operating units		
	Before settlement	After settlement	Percentage change	Before settlement	After settlement	Percentage change	Before settlement	After settlement	Percentage change
	Number	Number	Per cent	Number	Number	Per cent	Number	Number	Per cent
None	0	0	0	0	0	0	0	0	0
One	3	3	0	0	0	0	3	3	0
Two	5	5	0	3	4	33.3	8	9	12.5
Three	5	5	0	3	3	0	8	8	0
Four	5	5	0	2	3	50.0	7	8	14.3
Five	1	1	0	5	6	20.0	6	7	16.7
Six	3	3	0	0	0	0	3	3	0
Seven	0	0	0	0	0	0	0	0	0
Eight or more	6	9	50.0	6	6	0	12	15	25.0
Total	28	31	10.7	19	22	15.8	47	53	12.8

[a]Six of the deceased relatives did not own any farm land at death.

of farm estates in Virginia. According to this study, "subdivision of farms occurred in 43 per cent of the 83 estates studied."[1]

No doubt some of this division of farm land was compensated for by the consolidation of units in the settlement of the other estates, and in certain situations some division could be made without impairing the efficiency of the economic unit. However, since the farm was assumed to be of adequate size upon the death of the landowner, the above mentioned division was considered excessive.

No significant difference in the extent of subdivision was found between the intestate and testate cases (Table 50).

Physical division of real property may be due to the philosophy of distributing the property equally among the several heirs.[2] This practice probably was responsible for some of the excessive division of farm land that was found in the ex post data, for 89 per cent of the deceased relatives' estates had been shared equally by their heirs (Table 25). In other situations, this objective might not be achieved because the administrator may have to sell some of the real estate

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[1]Walrath and Gibson, op. cit., p. 32.

[2]Gibson and Walrath, op. cit., p. 947.

to pay the debts of the decedent and to pay the costs of settling his estate. As previously mentioned, three cases of subdivision resulted from this factor, and one case appeared to be due to friction or disagreement among the heirs. Thus equal treatment of heirs appeared to be the major reason for the extensive amount of subdivision found in the deceased relatives' estate.

The respondent landowners appeared to be unaware of this problem. Only four of the 31 respondents without plans thought that one of their heirs should buy out the other heirs in the estate settlement to prevent excessive division of farm realty. One would expect that the 63 respondents with plans might be more cognizant of the threat facing them in regard to maintaining the farm as an economic unit; however, 53 or 84 per cent of this group had made no provisions to prevent their farm land from being divided into uneconomical-sized units. Again the equitable treatment objective appeared to be a hindrance to the making of such plans, for 84 per cent of the respondents' estates would be divided equally in those cases involving a plural number of children (Table 25).

Ways to prevent breakup of economic unit

The methods used by the ten respondents who had taken steps to prevent their land from being divided into units which are too small in the estate settlement, might serve as

a guide for the farm parents who desire to achieve this objective.

Five of these respondents had eliminated the possibility that friction and disagreement among the heirs would cause division by having a family understanding. Two other respondent landowners had given a particular heir an option to buy out the other heirs. And to the extent that this option is exercised, the farm unit would not be divided in the estate settlement. One respondent was in the process of selling the farm to one of his children, and another had made plans to give the farm unit to the operating heir. In the remaining situation, division of the farm was prevented because the respondent's plan prohibited the sale of farm realty until his grandchild reached the age of majority.

Incorporation of farm assets may be used to prevent the division of farm land and to maintain continuous production while the ownership of the farm is being transferred. Sources of ready funds can be made available through insurance and savings so that estate settlement costs and the decedent's debts will not result in a forced sale of a part of the real property.

These remedial measures and the individual cases using them have been repeatedly discussed in connection with the achievement of associated objectives. To the extent that they are used and modified to fit specific family situations, the

optimum of complementary as well as competitive objectives should be realized.

SUMMARY AND CONCLUSIONS

Intra-family farm property transfers were found to be important to the landowners of Jefferson County in obtaining ownership of farm land. Forty-four per cent of the farm owners interviewed in this study had achieved ownership by such transfers. As acreages, land values and non-real-estate investment increase, within-family farm transfers should take on added significance by providing certain members of the next generation the opportunity of gaining access to farm property.

Many elements of doubt and confusion confront the farm family as they seek a satisfactory solution to transferring farm property within the family. Some of these problems are associated with farm transfer planning and other problems arise when the transfer process fails to achieve the farm families' transfer objectives. The chief aim of this study was to appraise methods of overcoming the obstacles underlying these problems.

Jefferson County was selected as the area for investigation. Courthouse records and personal interviews with a representative sample of landowners, selected from a systematic sample of names drawn from the Township Assessor's Books, were utilized as sources of the data necessary to test the directors of inquiry. Two schedules were used in the process of collecting the primary data. One was used to obtain information about the 94 respondent landowners and the second

schedule was used in 47 cases to obtain certain facts about the respondents' deceased relatives. Additional data concerning these relatives were obtained from the county records. In the analysis of these data, the success elements of the transfer experiences of the respondents and their deceased relatives were isolated and evaluated as alternative courses of action.

To serve as guides for conducting this inquiry, hypotheses were developed regarding the problems confronting the landowner in attaining his transfer objectives. In other words, delimiting, diagnostic and remedial hypotheses were formulated for each of the transfer objectives that farm families might want to achieve.

The choice of method of distributing farm property within the family is practically unlimited, and tends to be conditioned by the composition of the landowner's family, the nature and value of farm property owned and the objectives to be achieved by the transfer process.

In attempting to achieve their objectives, 40 per cent of the interviewees had made written transfer plans and 27 per cent had plans in mind for the transfer of their property. The remaining respondents had no plans; however, ten members of this group intended eventually to make written plans since they were dissatisfied with the intestate distribution.

The property of a similar proportion of the deceased relatives had been transferred by testate provisions.

The average age at which the respondents had made their wills was found to be 53.2 years. Apparently wills are being made at an earlier age in the present generation of landowners than in the past, for the deceased relatives had waited until they were about 68 years of age, on the average, before making their wills. A factor which appeared to be associated with the extent of transfer planning on the part of the interviewees, was that the deceased relative also had made a plan.

The characteristics of the landowner's family may influence his transfer objectives and thereby determine the plan he makes for transferring his property. If the present landowners of Jefferson County live as long as their ancestors, they have 15 to 18 years on the average to make or complete plans for transferring their property. Eighty-six of the 94 respondents had a living spouse, and there had been a surviving spouse in 26 of the 47 ex post cases. The respondents had an average of 2.34 children, compared to 4.83 children for the deceased relatives. The average grade in school completed by the respondents was 9.6. In contrast to their own educational attainment, the respondents' children completed the average grade of 11.84.

The extent of transfer planning was found to be related to these family characteristics. The average age of the respondents with plans was 59.6 years as compared to 47.2 for the respondents without plans; and the female landowners were found to have made transfer plans less often than had the male landowners. The respondent group with plans had a larger number of children than did those without plans. Age was found to be a factor contributing to this difference; however, the making of a transfer plan may be one way for those with larger families to simplify the transfer process. The proportion of landowners reporting plans was found to be little affected by their formal educational achievement; still, a greater percentage of the respondents with plans continued their education beyond high school than did those without plans.

The value of resources and the amount of land owned by the landowners tended to influence the transfer process, in that the respondents and deceased relatives with plans had a larger average net worth and larger land holdings than did those without plans. The type or kind of ownership interest also appeared to influence the extent that transfer plans had been made. A higher proportion of the respondents and deceased relatives with plans were found to possess their land in fee simple than did those without plans. Also more of the respondents without plans owned their property as joint tenants than did those having a transfer plan. Evidence was also

found supporting the contention that farm parents are dependent in the main on their farm assets for the resources needed to achieve their transfer goals. On the other hand, the respondents were found to be using insurance for this purpose to a greater extent than had their deceased relatives.

The respondent landowners possessed an average of 2.88 transfer objectives as compared to an average of 2.55 reported for their deceased relatives. In general, there was a similarity between the two groups in the percentage of landowners holding each objective. However, the percentage expressing achievement of a particular goal was found to be higher for the deceased group than that for the interviewees.

The objectives of adequate retirement income and equitable treatment of children were ranked the highest, with 98 and 95 per cent of the respondents respectively indicating each of these objectives as one of their three most important objectives.

The farm transfer objectives were found to be associated with the existence of a transfer plan, in that the respondents with plans had a greater number of objectives than did those without plans. This relationship between transfer planning and the number of objectives also was found to exist for the deceased group. Furthermore, the respondents with plans were found to have achieved a greater proportion of all objectives than did the members of the group without plans. Presumably

the very act of formulating a transfer plan enabled the landowner to visualize his transfer objectives more vividly, and tended to endow him with a confidence in his ability to achieve more of his objectives.

The problems associated with the achievement of each objective were examined by focusing attention on the failure and success elements of the within-family farm transfer process.

All of the respondents and 89 per cent of the deceased relatives had the objective of achieving an adequate retirement income as a goal of the transfer process. The respondents regarded the attainment of economic security during old age as more of a problem than did their deceased parents, for a smaller percentage of them expressed achievement of this objective as compared to the rate of achievement for the deceased relatives.

The respondents as a class were dependent on an average of 1.7 sources of retirement income, and 30 per cent of them had property owning spouses. If the respondents and their spouses were to retire with their present net worth from which they would realize a return of five per cent, and considering $200 per month as being sufficient to meet the retirement needs of farm parents, then 63 per cent of the cases studied would not realize an adequate retirement income.

A portion of the respondents may think that they will have no problem with retirement income because they are not

planning to retire. Twenty-nine per cent of the 87 respondents who were or had been farm operators had made no retirement plans. The social security program will enable more retired farmers to achieve economic security during old age and may also affect the age and plans for retirement.

Some evidence was found that the respondents were attempting to insure their spouses with an adequate retirement income to a greater extent than did their deceased parents. Forty-eight per cent of the respondents had given a fee simple and/or life estate in all property, whereas only 27 per cent of the deceased relatives had provided for their spouses in this manner. There seemed to be little connection with plans giving all property to the spouse and the fact that the spouse had property of her own as a source of retirement income. On the other hand, the property owned by their spouses appeared to give the respondents a feeling of greater economic security, and the act of giving all their property to their spouses made the respondents more certain of achieving the adequate retirement income objective.

One method of obtaining retirement income is the consumption of capital. Even though a majority of the spouses had the power to consume property, only three of 26 cases had resorted to this practice because other sources of income had been inadequate. The use of the life estate for this purpose was found to be less prevalent for the respondents as compared

to the deceased relatives. No plans for the use of a trust to obtain retirement income were found; however, in one case a deceased relative had made provisions for the formation of a trust upon the death of his surviving spouse. An annuity contract may also be used to obtain retirement income for the parents or for the surviving spouse. Only three of the respondents had purchased annuities at the time of interview; however, one of the respondents was planning to make use of the annuity principle by transferring the farm to a member of the family; in return a home was to be provided him for as long as he lived. Also, the respondents had received farm property in three of the ex post cases after making an informal agreement to provide a home for the surviving parent. In general, the respondents were found to have made little use of these alternative methods of obtaining an adequate retirement income. Some of this reluctance may be due to a lack of knowledge on the part of landowners as to how these devices operate. This apparent lack of knowledge indicates a need for an educational program designed to acquaint farm people with the use and the consequences of using these techniques.

Ninety-one per cent of the respondents with two or more children as compared to 80 per cent of the deceased relatives had the goal of equitable treatment of children as an objective of the transfer process. Only 67 per cent of the respondents expressed achievement, whereas 91 per cent of the

deceased group were thought to have achieved this objective. This significant difference appeared to result from the differing viewpoints of the respondent depending on whether he was speaking as a child receiving assistance or as a parent giving it. The respondent in expressing the opinion that his parents had achieved this objective was speaking as only one of several children involved, whereas in speaking for himself as a parent he was thinking about all of his children. The respondents with plans expressed achievement of the equitable treatment objective to a greater extent than did those without plans. This difference appeared to stem from the belief that with a plan, one has greater flexibility in making allowances for any unequal lifetime assistance to children by providing for an unequal division of the estate.

Some evidence was found that the children would not or had not received equitable treatment. A total of 64 individual instances of unequal lifetime assistance to the respondents' children was reported. Of this number, only 31 per cent would receive an unequal share of the estate; therefore it would appear that the children involved in 69 per cent of these situations would not receive equitable treatment. The same relationship was found to exist between the lifetime assistance rendered and the treatment of children in the settlement of the deceased relatives' estates. Inequitable treatment may also result from the assistance children give to their parents. Some of the members of the deceased group had failed to achieve

this objective in that unequal reverse assistance had been followed by an equal division of the estate.

Another source of inequitable treatment was found in that several children, who had made improvements at their own expense on farms rented from their parents, also shared the estate equally with the other children. In one of the three cases, in which the renting children paid for the improvements, would the respondent's estate be divided equally. In two of the three cases found in the ex post data the deceased parents' estate had been divided equally. Thus the respondents appeared to have received inequitable treatment from this source to a greater extent than did their own children. In total, six cases were found in which improvements were not made because the renting child had no assurance of being compensated for them or of acquiring the farm in the settlement of the estate.

In order for more farm families to achieve this goal the farm parents must be made aware that equal division of their estates might not be equitable to all their children. In two of the ex post cases, the parents had provided that the advancements given to the younger children were to be regarded as a portion of their inheritance. In other words, some method of acquainting the farm family with the fact that the children should share in the estate according to their contributions to the family and the farm would aid in preventing inequitable treatment.

In cases of unequal reverse assistance, bonds of maintenance may provide a method of paying the children for the care of the parents, or the renting child may be given an interest bearing note for the improvements constructed at the child's expense. For those farm parents who die intestate, changes in the laws of inheritance giving more freedom to the courts so that they can give recognition to any unequal lifetime assistance may result in a higher achievement of this objective.

Maintaining continuity of ownership within the family was an objective held by 51 per cent of the respondents. The landowners interviewed tended to possess this objective when the following conditions were satisfied: the farm family included a potential operating male heir who was interested and desired to take over the farm; the heir was given the chance to take over by virtue of a retirement and a transfer plan; and the deceased relative had possessed and achieved this objective. These same factors also tended to be decisive in determining the rate of achievement. The deceased relatives had this objective less frequently than did the respondents. The respondents and relatives who had transfer plans seemed to possess the objective of keeping the farm in the family more often than did those without plans. Only 48 per cent of the respondents who had this objective thought they would be able to achieve it with their present transfer plan, where-

as the relatives were believed to have achieved this objective in 89 per cent of the cases. This significant difference appeared to be the result of a larger number of potential operating heirs.

In a majority of the cases, the respondents were found to be the first generation of their family to own the land. In only one case out of five had the farm land been in the same family for more than two generations. The length of time the farm had remained in the same family tended to be related to the existence of a transfer plan. The farms of 46 per cent of the planning respondents had stayed in the family for more than one generation, whereas this was true with only 32 per cent of the respondents with no plans. This insignificant difference supports the hypothesis that legal arrangements are necessary for the successful transfer of the farm within the family.

Other reasons for the dis-continuity of ownership were found to be as follows: a part of the real estate had to be sold to pay the debts of the decedent and the estate settlement costs; one of the heirs assumed an excessive debt burden in buying the land; the children were unwilling to assume the necessary debt to purchase the farm; and no heirs wanted the property at the appraised price. In total, the above factors accounted for the sale of real estate to non-family members in eight of the ex post cases.

Another reason for dis-continuity of ownership is friction among the heirs. Six instances of serious disagreement among the heirs during the estate settlement were found in the deceased group. And some evidence was found that friction among the heirs of the respondent group could occur in that only 13 of the respondents with plans had taken steps to minimize disagreement among their heirs. The farm may not stay in the family because there were no potential operating heirs. Even though actual cases of the farm being sold out of the family were infrequently found in this study, the hypothetical reasons appeared to exist and posed a threat to those landowners who desired to achieve this objective.

Only three of the respondents had made plans for a certain child to buy out the other heirs in the settlement of their estates. One of these plans included a flexible financial arrangement to minimize the possibility of the farm being sold out of the family if economic conditions change. For those landowners who have no potential operating heirs at present, provisions might be made to prevent the farm from being sold until such an heir is willing and able to assume operation. One of the respondents was found to possess such a plan. Fifteen of the *ex post* cases had made an *inter vivos* transfer to their children, thereby assuring the achievement of this objective. In some situations this practice would conflict with the objective of retirement income. On the other hand, the

estate settlement costs might be minimized by inter vivos transfers. A majority of the respondents who had taken steps to prevent friction among their heirs had followed the practice of discussing their plans with the entire family. Many farm parents had not made any plans to achieve this objective because of a possible conflict with the equitable treatment objective. Still, most of the success elements cited above had been used in family situations in which the equitable treatment objective had also been achieved. So that more farm parents might become acquainted with these success elements, some farm organization could well sponsor a series of radio programs to disseminate these ideas of achieving this and other objectives of the farm transfer process.

The objective of minimizing transfer costs was considered by the interviewees to be equally as important as keeping the farm in the family. Forty-two per cent of the respondents had this objective as compared to only 13 per cent of the deceased group. The respondents and relatives with plans desired to minimize costs to a greater extent than did those without plans. This difference was not enough to be significant; however, as was the case with the other objectives, the process of making a plan appeared to cause the landowners to be more aware of their transfer objectives. A greater proportion of the respondents and relatives with plans were believed to have achieved this objective than had those of the two groups with-

out plans. This difference seemed to stem from the belief that a transfer plan results in lower settlement costs, but no evidence was found in this study supporting such an opinion.

An analysis of the ex post data obtained from the courthouse records, revealed that several different kinds of costs are involved in the settlement of estates. Such costs included the medical and funeral expenses of the deceased, administrative expenses, attorney fees, court costs, inheritance and estate taxes, and "other" costs. Except for the death taxes, the average cost of the last sickness and funeral of the decedent was found to be larger than for any of the other expenses of the estate settlement. The funeral and medical expenses were found to fall on those families with the least ability to pay; however, the average expense was insignificantly higher for the testate than for the intestate cases.

Administrative fees were paid most frequently in the intestate cases. This difference appeared to stem from the fact that the estate managers appointed by the courts are more likely to demand payment for such services than would a person named by the testate decedents. As expected, the average costs tended to increase as the size or gross value of the estates increased. The average administrative expense paid in the testate cases was $114 higher than in the intestate cases. This insignificant difference may be attributed to the possibility that the estate manager may be called

upon to perform more services under the provisions of a will than when the decedent dies intestate.

The average attorney fee was found to be approximately the same as the average administrative expense. There was no significant difference in the average fee paid in the testate cases as compared to that paid in the intestate cases.

The average court costs appeared to be dependent upon the size of the decedent's estate. The slight variation that was found in these expenses seemed to be due to the costs of making appraisals. The average court costs of the intestate cases were found to be significantly lower than for the testate cases. Most of the difference tended to stem from the higher gross value of the testate estates; nevertheless, further studies might reveal that the clerk may be required to make and file more legal documents in a testate settlement. Bond premiums were paid in 13 per cent of the 53 cases in which bonds were required. The average proportion of gross value used to pay this expense was about equal to that paid for the court costs.

Only two of the 66 cases studied had an estate with a gross value above $60,000, and federal estate taxes were paid in both cases. On the other hand, an inheritance tax was paid in ten of these cases. The average tax paid for the ten cases

was $894 and the average percentage of gross value was 4.72 per cent. Limited observations restricted the analysis; nevertheless, on the basis of the data obtained, a greater percentage of the testate cases paid the tax. But for one case, the average tax for the testate and intestate cases was found to be about the same; however, an increase in sample size may indicate that the testate cases had a lower average tax since a testator can gain full benefit of the exemptions.

"Other" costs, such as abstract fees, recording costs and widow's allowances, were reported and included as part of the expenses of the estate settlement. These costs were paid in only 14 of the 66 cases studied; however, in some of the individual cases a considerable portion of the estate was used to defray them. The average amount and frequency of these costs were about the same for the intestate and testate groups.

The average length of time required to close the estates was 27 months, and less time was used to close the larger estates than that used to close the smaller ones. The larger estates may be opened sooner and there appeared to be fewer cases of delayed closing. The intestate cases, as compared to testate, required a longer period of time for the estate proceedings. Perhaps the estate manager needed more time to close these estates since no testate provisions were available to guide him in the distribution of the property.

The average total cost of settling the estates was found to be $1603. The average percentage of gross value for all cases and classes was 11.16 per cent. In other words, for each $100 of gross value the average total cost of settling the estates was $11.16. Before taxes, the average total cost of the testate cases was $46 lower than the cost for intestate. After taxes were included, the cost of the testate cases was found to be $251 higher than the cost for an intestate distribution. Thus little evidence was found to support the opinion that a testate distribution, as compared to an intestate, results in lower estate settlement costs. On the other hand, if the landowner incorporates the proper provisions in his will so that all tax exemptions are realized, his transfer costs should be minimized as compared to the costs incurred if he does not make a plan.

In comparing the estate settlement costs and the value of resources owned by the decedent, the value of liquid assets was more than adequate to pay such costs in a majority of the cases. Some personal property would have had to be sold in 24 per cent of the cases and in only one instance was the real estate sold to pay the costs of estate settlement.

The respondent landowners seemed to be unaware of the potential burden of death taxes on their estates. Fifty-five per cent of the respondents were unable to make any kind of

an estimate of this burden. Since a majority of the interviewees had done nothing to minimize their estate settlement costs, it was assumed that many of the respondents did not possess the necessary information concerning such costs and the practices needed to minimize them. Conflicting objectives seemed to be a contributing factor in this situation. The infrequent use of lifetime transfers of property indicated a conflict between this objective and the retirement income objective. Disagreement or friction among the heirs may result in higher estate settlement costs. Two such instances were reported in the ex post group; however, in only one case did such friction result in higher costs. Most of the planning respondents had not discussed the plan with their families so as to minimize the possibility of disagreement among their heirs.

Few landowners were willing to make intra-family gifts because of a conflict with their retirement income objective. One may resolve such a conflict by making revocable gifts in trust. However, none of the respondents planned to use a trust and only one of the deceased group was thought to have used this device to reduce transfer costs. On the other hand, almost a third of the respondents with plans mentioned joint tenancy as a method used to reduce transfer costs. Thus, considerable evidence was found that the respondents were not fully aware of this problem and did not possess adequate

information regarding the practices needed to minimize settlement costs.

Respondent landowners with children considered the objective of early assistance to children to be of minor importance. Only ten of the respondents with this objective expressed achievement, whereas all of the 14 deceased relatives who had had this objective were thought to have achieved it. This difference seemed to be due to the fact that many of the respondents had children of school age and had not had the same opportunity of providing early assistance as had the deceased relatives, whose children were all out of school. A greater proportion of the planning respondents expressed achievement than did those without plans. Again, the age of the children was found to be a contributing element, for all of the respondents without plans who held this objective had children in school, as compared to only 56 per cent of those with plans.

In determining the extent that the respondents had received early assistance from their relatives, little difference was found in the occurrence of early assistance contrasted to late assistance. On the other hand, some evidence was found that early assistance may be more beneficial than assistance received later in life. Forty-one per cent of the interviewees indicated that they had received their most helpful assistance before reaching the age of 30 years, as compared

to only three per cent who had received their greatest financial help after reaching the age of 60.

Farm parents may be unable to achieve this objective because of a conflict with retirement income. By the time they are assured of adequate security during their old age, it may be too late to turn the farm over to one of their children in time for them to receive the maximum benefit. Some of the respondents' children may have little opportunity of receiving this form of assistance during the lifetime of their parents, for over one-fourth of the respondents did not plan to retire from farm operation. In the remaining cases, a time gap of six years would prevent one of the children from receiving the maximum benefit from this assistance.

The failure to achieve this objective appeared to be due in large measure to the conflicting transfer objectives of the farm parents. Previous mention has been made of the conflict between the retirement income and this objective. Also, the desire to achieve the equitable treatment objective might prevent the farm parents from turning the farm over to one of the children. Such conflicts may be resolved by providing assistance to children that does not place heavy demands on the parents' limited sources of retirement income. Forty per cent of the respondents reported that a type of assistance which does not compete with sources of retirement income had rendered them the greatest financial benefit. Early planning

and a father-son operating arrangement may offset the effects of the time gap between the two generations. It might be necessary in some cases, for the landowner to turn the farm over to one of his grandchildren if the age gap between father and son is too great.

The importance of the prevention of an excessive debt burden on the purchasing heir as an objective was indicated in that only five of the respondents and two of the deceased relatives had this goal. In general, the cases holding and achieving this objective were found to be those in which the family unit consisted of a small number of children, preferably a single heir; however, in one instance, a large number of children had been able to make an arrangement achieving this objective after the estate had been settled.

Five of the ten respondents who had purchased property from the other heirs in the settlement of their relatives' estates indicated that they had experienced some trouble with an excessive debt burden. In two of these five instances, the purchasing heir later lost the farm because the debt burden assumed had been more than the farm could carry. An analysis testing the hypothesis that equal sharing of the estate among the children often results in a heavy capital requirement for the purchasing heir, revealed that the average value of the debt assumed tended to vary directly with the number of children sharing the estate.

The 40 respondents with plans and two or more children appeared to be little aware of the true significance of the excessive debt problem, for only three of them had made plans for one of their children to purchase the farm in the settlement of their estates. Nine of these respondents indicated that they had not made such plans because they had not thought about it, and 12 of them said that they wanted their children to decide as to which child would be allowed to purchase the farm. Thus, the equitable treatment objective appeared to be a decisive element as to whether a plan to lighten the debt load had been made.

Landowners who desire to achieve this objective might make arrangements for one of the heirs to buy the farm in the estate settlement. Flexible credit provisions and a purchase price based on the true productive value of the farm would make the financing of the farm transfers within a family easier and safer for all parties concerned. For those landowners who fail to take positive action mitigating the excessive debt burden, legislation may be enacted permitting the purchasing heir to buy the farm at the appraised value rather than at the market price.

Transferring the farm business as a going concern was an objective of only four of the respondents interviewed, and only one of the deceased relatives was believed to have possessed this objective. An analysis of these cases revealed

that the operating respondents appeared to possess a greater desire to maintain the going concern than did the non-operating ones, and the respondents who were not concerned about the equitable treatment objective tended to express achievement of this objective to a greater extent than did those respondents who were concerned.

The problem of maintaining the going concern was found to have been a minor one for the deceased relatives, for the new operator had purchased the livestock and equipment of the original operator in 11 of the 14 cases of interrupted operation. In one other case, three years were required for the new operator to reach the same level of production as had been attained by the original operator. However, some evidence was found in the analysis of the estate settlement costs that this objective had not been achieved in the second group of relatives, for personal property had to be sold in some of the cases to pay settlement costs. On the other hand, most of the respondents indicated that there would be enough liquid funds to pay all such costs, therefore it would appear that the respondents were not too vulnerable to this threat of the going concern objective.

Eighty per cent of the planning respondents were found to have made no provisions to achieve this objective. Since most of them wanted to let their children decide who would operate the farm, one could conclude that a conflict with the

equitable treatment objective had prevented them from making any plans to achieve this objective. The remaining respondents displayed a lack of concern in regard to maintaining the going concern. The respondents, who had made provisions to achieve this objective, said that continuous operation had been assured by giving the farm to the operating heir by testate bequest or by an *inter vivos* transfer. In four cases the operating heir had been given an option to buy. To the extent that these measures are applied certain complementary objectives may also be achieved. And the practice of giving the operating heir an option to buy the other heirs' share would seem to be less likely to conflict with the equitable treatment and retirement income objective. Because of the lack of concern displayed regarding the objective under discussion, first priority should be given to some type of educational program designed to stress the need of maintaining the going concern and to present alternative means of accomplishing this and other objectives of the transfer process.

Maintaining an economical-sized operating unit was found to be an objective of four of the *ex ante* cases, and only two of the deceased relatives were believed to have had this objective. The objective of preventing a division of the farm land was found to have been achieved in a majority of these cases.

Even though division of farm land was found to be a minor problem with the deceased relatives who had wanted to prevent this division, an analysis of the remaining ex post cases revealed that six cases had been divided during the estate proceedings. Furthermore, an additional ten estates had been subdivided following the estate settlement. Therefore, 16 or 39 per cent of the 41 estates studied had been divided because of the estate settlement. Since the farm unit was assumed to be of adequate size upon the death of the landowner, any division of the estate was considered excessive. The practice of distributing the property equally among the heirs appeared to be responsible for this division, for 89 per cent of the deceased relatives' estates had been shared equally by their heirs. Three cases of division resulted because the estate manager had to sell some of the real estate to pay the debts of the decedent and to pay settlement costs, and one case appeared to be due to friction among the heirs.

Only ten of the respondents were found to have made plans for the achievement of this objective. The reasons cited for not making such plans were similar to those expressed in discussing the last two objectives. Five of these cases had reached a family understanding, which would tend to prevent division resulting from friction or discord among the heirs. Four other respondents planned to achieve this objective by giving a particular heir an option to buy out the other heirs

and by using inter vivos transfers. Incorporation of the farm assets may also be used to achieve this objective as well as associated objectives.

This study was designed to appraise methods of overcoming the obstacles underlying the problems which result when the transfer process fails to achieve the farm families' transfer objectives. Further studies might examine the problems more closely associated with farm transfer planning. Some evidence was found in this study which would indicate that the lack of planning had been a contributing element causing the farm parents to achieve less than the optimum of their transfer objectives. Such studies might reveal that the farm people in this section need assistance in making sound decisions of this nature.

Since several of the respondents displayed a certain amount of dependence on the legal profession in the making of plans to minimize transfer costs, some method should be employed to take an inventory of all possible transfer alternatives confronting the farm family. A questionnaire sent to all available members of the legal profession in a particular locality might reveal a wealth of ideas and information concerning the best practices currently being used by their farmer clients. Such a survey would not require a lot of time or expense and should be quite beneficial to all parties interested in the problems and practices regarding intra-family farm succession.

In further studies of this nature, some attempt should be made to contact more of the children of the ex post cases. This recommendation is made because of the need to mitigate the effects of memory bias which might be of some consequence. For example, it would be necessary to interview all the children of the deceased to determine if the children had been treated on an equitable basis. In other areas, the respondent appeared to be reluctant about giving certain information. There is some question as to the validity of the respondent's opinion regarding the transfer arrangements which had been used by their parents. Since family situations are so varied, the respondent may tend to be confused as to the methods used, for in most instances there is only one such experience per generation. Some of these limitations might be remedied by a survey of legal opinion and by interviewing additional members of the same farm family.

Reference to other areas which need further study has been made in the general text. The most important of these areas are as follows: the sources of potential retirement income of farm parents; the impact of social security on plans for retirement; and the difference between testate and intestate costs of estate settlement.

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APPENDIX

Table 51. Estimated number of farms changing ownership by intra-family transfers per 1,000 of all farms in Iowa, years ended March 15, average 1935-39, annual 1940-55[a]

Year	Intra-family farm transfers[b] Number	Total all classes Number	Percentage intra-family Per cent
Average 1935-39	17.2	68.7	25.0
1940	18.1	70.5	25.7
1941	15.9	67.0	23.7
1942	15.5	71.2	21.8
1943	14.6	69.4	21.0
1944	15.9	76.1	20.9
1945	17.1	69.1	24.7
1946	16.5	68.2	24.2
1947	19.1	71.6	26.7
1948	20.6	67.1	30.7
1949	16.8	59.3	28.3
1950	15.4[c]	52.3	29.4
1951	16.1	55.7	28.9
1952	14.5	47.4	30.6
1953	15.3	43.8	34.9
1954	16.1	40.7	39.6
1955	14.8	42.1	35.1

[a]Data of last six years adapted from Farm Real Estate Market. U.S. Department of Agriculture. Agricultural Research Service. March 1955 and previous issues. Remainder of data adapted from the Farm Real Estate Situation, 1947-48 and 1948-49. U.S. Department of Agriculture Circular No. 823 and corresponding circulars for earlier years.

[b]Intra-family farm transfers as used here include those transfers which result from inheritance, gift, and sales in the settlement of estates. Data exclude inter-vivos sales from owner to member of his family. No comparable data on this segment of intra-family transfers could be found.

[c]Data from 1950 were adjusted as original data included miscellaneous and unclassified sales. Adjustment factor was 1.2 transfers and was calculated by taking the average of such transfers for the period of 1935-49.